



August 13, 2004

Memorandum

To: Members of the Board

From: *Melissa Loughan*
Melissa Loughan, Assistant Director
Wendy M. Comes

Through: Wendy M. Comes, Executive Director

Subj: ***Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts: Comment Letters Received through August 12, 2004***¹

SUMMARY OF OUTREACH EFFORTS

The exposure draft, *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*, was issued on April 26, 2004 with comments requested by July 31, 2004. Upon release of the exposure draft, notices and press releases were provided to:

- a) The Federal Register;
- b) *FASAB News*;
- c) *The Journal of Accountancy*, *AGA Today*, *the CPA Journal*, *Government Executive*, *the CPA Letter*, *Government Accounting and Auditing Update*, and *JFMIP News*;
- d) The CFO Council, the Presidents Council on Integrity and Efficiency, Financial Statement Audit Network, and the Federal Financial Managers Council; and

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

- e) Committees of professional associations generally commenting on exposure drafts in the past.

To encourage responses, a reminder notice was provided to our Listserv. In addition, we contacted professional associations and affected agencies directly if a response had not been received by the date requested.

RESULT

As of August 12, 2004, we have received 18 responses from the following sources:

	FEDERAL (Internal)	NON-FEDERAL (External)
Users, academics, others		3
Auditors	2	2
Preparers and financial managers	11	

The comment letters are provided immediately following this memo; beginning at page 4. An index of respondents is presented below in the order the letters were received:

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STAFF SUMMARY AND ANALYSIS

Staff has summarized and analyzed the questions and comments provided. The staff's summary is intended to support your consideration of the comments and not to substitute for reading the individual letters. When feasible, staff provides a recommendation in responses to issues identified.

Attachment 2, at page 55, provides the staff summary. The summary presents:

- a) a Tally Of Responses By Question,
- b) a Quick Table Of Responses By Question,
- c) a detailed table of Answers and Comments by Question and by Respondent, and
- d) a Listing Of Additional Comments From Respondents.

Attachment 3, at page 73, provides the staff analysis including an overall summary of responses, a list of issues identified with staff analysis and recommendations.

ATTACHMENT 1 – TEXT OF COMMENT LETTERS

#1 – Department of Commerce, James Taylor, Deputy Chief Financial Officer and Director for Financial Management, Federal preparer

July 6, 2004

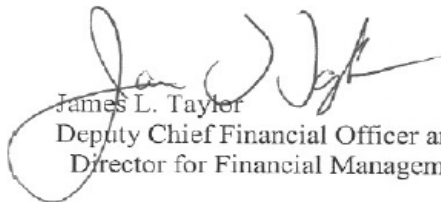
Ms. Wendy M. Comes
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, N.W.
Washington, D.C. 20548

Dear Ms. Comes:

As requested by the Federal Accounting Standards Advisory Board, enclosed is the Department of Commerce's response to the questions on the exposure draft entitled "Inter-Entity Cost Implementation: Amending SFFAS 4, *Managerial Cost Accounting Standards and Concepts*."

Thank you for providing us with the opportunity to comment on this draft. If you have any questions regarding our comments, please contact Bruce Henshel of my staff at 202-482-0646.

Sincerely,


James L. Taylor
Deputy Chief Financial Officer and
Director for Financial Management

Enclosure

**Department of Commerce (Department) Response to FASAB Exposure Draft –
Inter-Entity Cost Implementation, Amending SFFAS 4, Managerial Cost Accounting
Standards and Concepts (April 26, 2004)**

Prepared by: Office of Financial Management, July 6, 2004

1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 – 115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

DEPARTMENT RESPONSE:

Yes. The DOC believes that successful implementation, however, is highly dependent on the issuance of additional, sufficient/practical guidance from FASAB and/or OMB. We elaborate on implementation guidance in question 5).

2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

DEPARTMENT RESPONSE:

No. While Mr. Reid's proposal is a reasonable alternative, the Department believes that the federal government should have sufficient time to implement, by FY 2008, the full costing of inter-entity costs per the exposure draft's proposal. The Department of Commerce has been heavily involved with the inter-entity costs issue because of its extensive participation in the Inter-Entity Costs Task Force. Because the Inter-Entity Task Force believed that there was not widespread, material/significant applicability of any categories of inter-entity cost, full implementation of inter-entity costs as proposed by the Exposure Draft would best help to ensure that the full costing of inter-entity costs in agency financial statements is achieved.

3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page19)? Please provide examples and/or explain your answer.

DEPARTMENT RESPONSE:

Yes. The Department believes that some agencies may have material/significant inter-entity costs not currently being recognized due to the current restriction included in SFFAS 4. Tab E of the Inter-Entity Costs Task Force's report lists several examples of possibly material inter-entity costs. Of those, some of the examples the Department believes might have more widespread applicability are shown below (please note that the Task Force indicated that some of these might also be considered broad and general support):

- Department of Justice services for criminal and civil litigation. Some of the costs may be from the U.S. Attorney's Office and others may be from the Environmental Group.
- Department of Justice legal services, including enforcement actions and defense litigation.
- Department of Justice efforts related to Treasury Judgment Fund claims.

4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

DEPARTMENT RESPONSE:

Yes. If it becomes necessary for providing agencies to track all material/significant costs for goods or services provided to receiving entities, providing agencies may be more inclined to try to recoup some of these costs through reimbursable agreements/billings.

The Department also believes that the objective of full costing of inter-entity costs may also be achieved in part through the increased capturing of these costs through reimbursable agreements/billings. The reimbursable/billing process is an established process that should readily contribute towards the goal of determining/calculating the inter-entity costs received by receiving entities. Knowing that the determination/calculation of inter-entity costs is a rather complex process, the Department believes that agencies may become more motivated to increase the billing/payment of inter-entity costs, especially if that process is seen as easier than the inter-entity costs process.

5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the provisions of this proposal.

a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:

- i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions.
- ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.

iii. Identifiability -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision.

Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

DEPARTMENT RESPONSE:

Additional guidance is particularly needed for the Identifiability factor. The Department believes that providing entities may have significant difficulty in determining, with reasonable precision, the inter-entity costs incurred on behalf of receiving entities, and in calculating and breaking down inter-entity costs by receiving entity. The Task Force's report, Tab E, indicated, for example, that the Department of Justice would have difficulty tracking individual costs to Treasury Judgment Fund claims. Guidance will be necessary to assist providing agencies in its determination and calculation of inter-entity costs by receiving entity with reasonable precision. Another key problem is that providing entities may not be knowledgeable as to what is material to the receiving entity, and unsure of what inter-entity costs to determine/calculate. Will providing entities expend significant time and effort to track inter-entity costs that are immaterial to the receiving entities? We believe this is a significant issue that implementation guidance would be particularly helpful in addressing.

b. SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

DEPARTMENT RESPONSE:

The Task Force report's Tab E indicated some services that the Department of Justice performs for other agencies that could be considered broad and general support. We believe, should this exposure draft's proposals be implemented, that an extensive evaluation of the Department of Justice services performed for other agencies be performed, including a determination, if possible, as to which services, if any, might be considered broad and general support. An expansion of this evaluation of broad and general support to other applicable agencies would likely be appropriate, as well.

5) ADDITIONAL COMMENTS BY THE DEPARTMENT OF COMMERCE:

Implementation guidance is critically needed to assist OMB and/or Treasury in establishing an overall framework and detailed processes and procedures for the exposure draft's proposals (for agencies' implementations), including

- a) Identifying the responsibilities and deliverables of both providing and receiving entities;

- b) Establishing timelines for carrying out those responsibilities; and
- c) Establishing a communications process between providing and receiving entities

It will be very important to agencies to have an established process and procedures for the determination/calculation of inter-entity costs.

In order for this full costing effort to be successful, it will be of critical importance to identify an agency(s) or organization that will be the arbiter between the receiving and providing entities when disagreements or difficulties arise during the process. One example could be when a receiving entity believes an inter-entity cost is material to its financial statements, however, the providing entity believes that it cannot devote the time and resources to determine/calculate the inter-entity costs for that receiving entity. The providing entity, alternatively, may believe that the inter-entity costs are immaterial to the receiving entity, and that no further work by the providing entity is necessary. It is the potential for chaos that could result from this scenario that has many agencies concerned about full implementation of SFFAS 4.

#2 – Management Concepts Inc., Charles Maloney, Jr., Executive Director, Financial Management Programs, Non-federal Other

Wendy M. Comes, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Subject: FASAB Exposure Draft Amending SFFAS 4

Dear Ms. Comes,

Thank you for allowing Management Concepts the opportunity to comment on FASAB's latest exposure draft, "Inter-Entity Cost Implementation: Amending SFFAS 4." Our responses to FASAB's questions are provided below.

1. This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 –115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

Our Response: Yes.

2. Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

Our Response: We disagree with the alternative views. The issue of recognizing inter-entity costs is not new. Agencies have had sufficient experience in this subject to understand the accounting and reporting implications. Consequently, step-by-step implementation instructions are not necessary.

The application of accounting standards requires professional judgment; standards cannot be applied in cookbook fashion. The alternative views promulgate the idea that the consistent application of an accounting standard requires an identical application in all entities. This ignores the differences in entities. Permitting only the recognition of those inter-entity costs that qualify for recognition in all entities would be very limiting.

Entities should rely on professional judgment in the application of this accounting standard as they do with other standards.

3. Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page19)? Please provide examples and/or explain your answer.

Our Response: Due to the enormity of Federal operations, it is likely that non-reimbursed or under-reimbursed costs exist. One likely example concerns security costs. Security is a growing cost in government operations, and in cases where entities are co-located, one entity may bear the major portion of the security costs. Consequently, one entity may not be recognizing its full cost of operations.

We believe this is an issue that requires additional review. Specifically, review is needed in cases where one entity in the federal government benefits from support that is paid by another entity, and there is no increase to the supporting agency. Should these costs be allocated or not?

4. Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Our Response: Yes. It should be expected that federal entities will seek reimbursements for services provided to other federal entities. This effort could enhance the reporting of full costs by increasing the accuracy of allocating inter-entity costs that are not currently recognized.

- 5a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) [...] Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

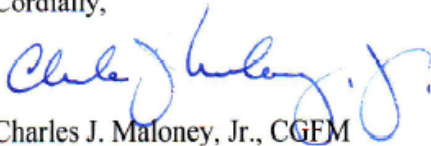
Our Response: No. The purpose of this effort is to recognize the full cost of operating federal entities. Hence, the more information that can be gathered, the greater its benefit in developing guidance. We believe that all material inter-entity costs should be recognized without further qualifiers that may reduce the possibility of identifying relevant costs.

- 5b. SFFAS 4 provides that inter-entity cost recognition is not required if the underreimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

Our Response: No.

I hope these responses are clear and helpful. We would be happy to provide any further clarification FASAB requires.

Cordially,

A handwritten signature in blue ink, appearing to read "Charles J. Maloney, Jr.", is positioned above the printed name.

Charles J. Maloney, Jr., CGFM
Executive Director
Financial Management Programs

#3 –Carmichael Brasher Tuvell & Co., Chris H. Carrollton, CPA, Non-federal auditor

Comments on Exposure Draft, *Proposed Statement of Federal Financial Accounting Standards Inter-Entity Cost Implementation*

Respondent: Chris H. Carrollton, CPA

Position: Non-Government, CPA Firm that does Federal audits. Supervisor.

- 1) I do not agree with the proposal. The 2007 date will not address the issue of whether or not agencies are capable of truly recognizing their full costs.
- 2) Yes, I agree with Mr. Reid. Federal agencies vary greatly in their missions and the conduct of their operations. To leave it to each agency (and auditor of the agency) to decide what will be included as “full cost” and the method for determining the full cost will result, in my opinion, in even greater incongruity among reporting entities’ financial results. Agencies should be examined by the Office of Management and Budget for specific costs that are either completely or partially “covered” by other agencies. This will require an agency-by-agency analysis with careful consideration given to the materiality of the non-reported or under-reported cost, the cost-benefit of accumulating the necessary information and a realistic assessment as to the reliability of the valuation of goods and services provided on behalf of receiving agencies. It will be necessary to prescribe specific costs to be recognized and allow the agencies sufficient time to determine the best method for valuing those costs.
- 3) Reimbursable agreements govern most inter-entity transactions. The determination of the reimbursable amount is dependent upon a “meeting of the minds” of agency officials. Most agencies are not well equipped to perform as careful an analysis of their true costs in delivering goods and services as are their private-sector peers. Private companies sometimes devote considerable resources to “full-costing” because of its effect upon pricing and, ultimately, profitability. Certainly there are non-reimbursed and under-reimbursed inter-entity costs among agencies in the government. Some examples might be security for Federal buildings, training of agency security personnel, environmental assessments and the sharing of data between agencies.
- 4) The activity of determining whether or not costs are being fully-recovered would, in of itself, create an incentive for agencies to adjust their pricing via a modification to the existing Memorandum of Understanding. This is true especially where the costing analysis demonstrates a significant under-reporting and the agency or its program is somewhat dependent upon its pricing to cover its costs.

5)

a) These factors appear to be fairly clear and easily applied for larger inter-entity relationships. However, in some cases agencies might need to consider Congressional intent and their enacting legislation in determining the “materiality” of the inter-entity costs.

b) I do not know of any activities that might not be covered under this classification.

#4 – Library of Congress, Jay Miller, Federal preparer

1) This exposure draft proposes that the inter-entity cost provisions of SFFAS No. 4 (para. 105 – 115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

The Library of Congress (the Library) is in a unique position to comment on the exposure draft (ED) because it has already recognized inter-entity costs beyond those that are required by Office of Management and Budget (OMB) Bulletin No. 01-09. The Library recognizes four inter-entity costs: (1) Office of Personnel Management (OPM), (2) U.S. Treasury Judgement Fund (USTJF), (3) Architect of the Capitol (AOC), and (4) Government Printing Office (GPO). Items (1) and (2) are required by OMB Bulletin No. 01-09; although not required by OMB Bulletin No. 01-09, items (3) and (4) have been included as imputed costs and financing sources in the Library's financial statements since FY 1998.

The Library, AOC, and GPO are members of the Legislative Branch Financial Management Council (LBFMC). The Library's membership and participation in the LBFMC have been instrumental in providing the cooperation and exchange of information needed to obtain the cost data for AOC and GPO inter-entity costs and the Library has fine-tuned this process over several years. The work performed through this committee since FY 1998 has supported the Library's decision to recognize the AOC and GPO inter-entity costs of these legislative branch Agencies. However, the Library is not subject to the requirements of the CFO Act and is not a member of the CFOs Council; therefore, the Library has not had similar access to the executive branch Agencies.

Based on its experience with the inter-entity costs of AOC and GPO, the Library feels that an implementation date of FY 2008 does not provide adequate time to fully implement the inter-entity cost provisions of SFFAS No. 4. Furthermore, the Library supports the alternative view taken by Mr. Reid to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis. The Library believes that the standard, as amended by the ED, remains unclear on a number of issues; these issues are described below:

a. There is no clear delineation between (i) an Agency that is providing goods and services for another Agency versus (ii) an Agency that partners with other Federal, State, and local Agencies to implement a program.

For example, through a national network of cooperating libraries, the National Library Service for the Blind and Physically Handicapped (NLS/BPH) administers a free library program of braille and audio materials circulated to eligible borrowers in the United States by postage-free mail. To implement this program, regional and subregional libraries receive funding from State, local and Federal sources and there is an additional appropriation to the U.S. Postal Service (USPS) for free matter for the blind or handicapped. The USPS is required to provide free postage for this program (as well as other programs) under 39 U.S.C. 3403; the statute requires the USPS to provide free postage to individuals, libraries, and other noncommercial organizations serving blind and physically handicapped persons.

The standard is unclear as to whether the NLS/BPH (i) is receiving free postage for the program or (ii) works as a partner with the USPS, State, local, and other Federal agencies to implement this program. NLS/BPH uses the services of USPS because the USPS is legally required to provide it as a free service. If the service were not free, a number of shipping vendors would be able to provide the service.

b. There is no clear delineation as to the purpose and scope for which the providing Agencies perform the services. Providing Agencies may perform these services for various reasons; a particular service may be (i) an integral part of the providing Agency's mission and represent the majority of its activity, (ii) administrative in nature and benefits from specialization and economies of scale (such as cross-servicing under the Economy Act), or (iii) historically and traditionally performed by the providing Agency, may be related to its mission, but is only a minor activity.

The standard makes a specific exemption for Agencies that provide broad and general support for all entities, but there is no exemption for Agencies that perform services for another Agency because that is an integral part of their mission. For example, the Congressional Research Service (CRS) provides services to the Congress. Is it the standard writers' intention that the Library be compelled to report the inter-entity cost of CRS' services to the House, Senate, or other Agencies? The Library would not support such an approach, and if required, the Library would need to identify these costs, identify a cause-and-effect cost driver for each type of cost, and collect cost driver statistics. The Law Library and Library Services are other Service Units within the Library whose missions serve a number of constituencies (Congress, other libraries, and the public).

c. The standard requires recognition of inter-entity costs when they are material to the receiver, but ignores inter-entity costs that are material to the provider. If a

small Agency provides goods and services to a large Agency, the inter-entity costs may be immaterial to the receiver, but very material to the provider.

Conversely, if the inter-entity costs are material to the receiver, but immaterial to the provider, the large Agency is compelled to provide cost data to the receiving Agency. The Library provides goods and services to many small Agencies such as the Office of Compliance, Open World Leadership Center, Abraham Lincoln Commission, and Capitol Preservation Commission. The services the Library may provide to these Agencies are immaterial to the Library as the provider, but may be material to them as the receiver. Currently, the Library's reimbursable agreements with these Agencies do not include the inter-entity costs of the Architect of the Capitol (AOC) and the Office of Personnel Management (OPM).

As described above, the Library believes that the lack of clear definitions and guidance will lead to inconsistent implementation of this standard, especially in the current time-constrained environment of interim and accelerated year-end reporting requirements.

2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS No. 4? Please explain your reasons for agreeing or disagreeing.

Yes, the Library agrees with the alternative views of Mr. Reid. We agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS No. 4. The Library provided examples in our response to 1) above that describe the reasons why the proposed standard (as amended by the ED) would be difficult to apply and implement. However, we suggest that the standard encourage providing and receiving Agencies to work with each other and FASAB to identify and recognize material inter-entity costs and help ensure consistent accounting treatment.

3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS No. 4, para. 111 -- 113 (see page 19)? Please provide examples and/or explain your answer.

Yes, the Library believes that there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS No. 4, paragraphs 111 through 113. In our response to 1) above, we provided examples for the Library as a receiver of services (GPO and AOC).

4) Do you believe that Federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Yes, depending upon the circumstances, we believe that Federal entities may seek additional reimbursable agreements or modify existing agreements because non-reimbursed or under-reimbursed inter-entity costs may be recognized. However, clearer guidance must be established

on how inter-entity costs will be treated on reimbursable agreements; for example, under what circumstances should a providing Agency charge for services it receives from another entity (non-reimbursed, under-reimbursed, and reimbursed). Also, it may be appropriate to consider whether the providing and/or receiving Agencies are included in the Financial Report of the U.S. Government (FRUSG). The FRUSG includes the executive, legislative, and judicial branches, and other independent establishments and Government corporations, plus a number of independent executive agencies.

5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the provisions of this proposal.

a. SFFAS No. 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS No. 4, para. 112 at page 19.) The factors are:

i. Significance to the entity – The cost of the good or service is large enough that management should be aware of the cost when making decisions.

ii. Directness of relationship to the entity's operations – The good or service provided is an integral part of and necessary to the output produced by the entity.

iii. Identifiability – The cost of the good or service provided to the entity can be matched to the entity with reasonable precision.

Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

Additional guidance should be given on applying the criteria. For example, should all criteria, two out of three criteria (and in what combinations), or only one criterion apply?

In the first criterion, the Library believes that "significance to the entity" should go beyond the consideration of whether a cost is large and consider the importance of the goods or services to the receiving entity. A cost may not necessarily be material, but may still be integral and necessary in the fulfillment of the receiving Agency's mission. In this example, the second criterion is met, but not the first.

Who is doing the matching in the third criterion, the provider or the receiver? Depending upon the circumstances, either the provider or the receiver may provide the most accurate data. Does the matching imply direct tracing, or will the standard accept cost assignment or cost allocation as long as the same methodology is consistently used?

In FY 2003, the Library recorded an inter-entity cost and imputed financing source of approximately \$178,000 for the U.S. Treasury Judgement Fund (USTJF). If the Library were to

apply the three criteria to this inter-entity cost, (i) the cost may not be significant to management and (ii) there is no relationship of this service to the Library's outputs; but, (iii) the cost of the service can be matched to the Library. Therefore, only one out of the three criteria from the standard may be met. However, the Library has consistently recognized this inter-entity cost in its financial statements for those years that the cost has occurred because it is specifically listed as a cost that "reporting entities are required to recognize" per OMB Bulletin No. 01-09 (page 31).

b. SFFAS No. 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the Federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

The standard states "The cost of such broad services should not be recognized as an expense (or asset) by the receiving entities when there is no reimbursement of costs (Paragraph 112)." The standard does not mention under-reimbursement. Please include "under-reimbursement" in the language of the standard if the Board intends to exclude both under-reimbursed and non-reimbursed costs.

Additional guidance should be given for defining broad and general services. Guidance should be provided to distinguish services provided by an Agency that are (i) broad and general because they are provided to all or most entities of the Federal government as opposed to (ii) Agency-specific and not broad and general. The General Accounting Office (GAO) may be an example of an Agency that provides some services that may be considered broad and general and some services that are Agency-specific. For example, services relating to the Single Audit Act or to the Chief Financial Officers Act may be considered broad and general, whereas services related to special studies, reviews, or performance audits on specific programs may not be broad and general. Perhaps the Board could develop additional criteria for determining whether a particular type of service is broad and general, such as whether the service is (i) seasonal, recurring, and/or routine; (ii) in support of legislation that requires compliance by all or most Federal Agencies; or (iii) in support of legislation that requires the providing Agency to provide oversight and guidance over all or most Federal Agencies. Also, guidance should be provided regarding which entity is really benefitting from and receiving the service. Continuing with GAO as the example, is the receiving Agency the Congress (who may request the service) or the entity being reviewed/audited?

#5 – KPMG LLP, Daniel L. Kovlak, Partner, Non-federal auditor

Subject: Response to the FASAB Exposure Draft on the Inter-Entity Cost Implementation

ATTACHMENT 1 – TEXT OF COMMENT LETTERS

Dear Wendy:

We are pleased to have the opportunity to provide our comments on the Exposure Draft on the Inter-Entity Cost Implementation (the “ED”) issued by the Federal Accounting Standards Advisory Board (FASAB).

Our response to the Questions for Respondents is included as Attachment A.

In addition to our answers to the questions for respondents, we have one additional comment. On page 16 of the ED, the Task Force recommended that before implementation of any revisions or removal of the OMB restriction, (1) there should be detailed, practical guidance available to agencies on identifying, quantifying and evaluating inter-entity costs... (2) there should be established policies and procedures for the providing agency to submit necessary data to the receiving agency....(3) there should be adequate consultation among Federal agencies and the Federal audit community about the revisions or removal of the OMB restriction prior to implementation.

FASAB should explain what the plans are to address these recommendations prior to the implementation date.

If additional information or clarification is needed regarding our response, please contact me at (202) 533-6072, John Hummel at (202) 533-3008, or Diane Dudley at (202) 533-3002.

Very truly yours,

Daniel L. Kovlak, Partner

KPMG LLP

Attachment A

Questions for Respondents

- 1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 – 115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

Yes. We agree with this proposal.

- 2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

We agree with the alternative view in theory, but not in practice. In theory, we agree with the alternative view presented in FASAB Statement Number 4. However, from a practical standpoint, significant progress has not been made in this area. Therefore, we believe the proposal set forth in the ED should be followed.

- 3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page 19)? Please provide examples and/or explain your answer.

We believe that there are non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, however, we do not have specific examples.

- 4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Yes, we believe that if a Federal entity knows the true cost of providing a service, it will, in most cases, seek to recover those costs.

- 5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the provisions of this proposal.

- a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:
- i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions.
 - ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.
 - iii. Identifiability -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision.

Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

Yes, we believe that additional guidance is needed to apply the 3 factors to consider in determining whether an inter-entity cost is material to the receiving entity. For example, the FASAB should explain how the providing entity will determine the materiality from the receiving entity's perspective. It seems that this will be a significant burden on the providing entity. Where the providing entity is significantly larger than the receiving entity, it will have to keep track of its costs at an immaterial level.

- b. SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

Yes, FASAB should provide a comprehensive list of all costs considered to be "broad and general support," to make sure that application is consistent among Federal agencies.

#6 – Western Area Power Administration, Gary Michelson, Federal preparer

1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 – 115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

No, the 1998 OMB memo provides sufficient guidance for significant inter-entity costs. We concur with the AAPC conclusion that all other inter-entity costs subject to full costing should be reimbursable and any additional costing should be specifically identified by FASAB or OMB.

2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

Yes, since only material amounts require full costing, only a relatively few additional large scale activities will be included in the specific step-by-step provisions. The specific guidance for the large scale activities will facilitate consistency in the interpretation of guidance and application of audit procedures.

3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page19)? Please provide examples and/or explain your answer.

Yes, relative to WAPA's business, primarily Treasury cash disbursement and collection activities (check writing and lockbox) and DOJ legal assistance associated with resolution of wholesale energy contract disputes.

4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Partially yes (for small scale activities) because funding constraints continue to create a need for Agencies to seek alternative financing sources. However, large scale, general in nature, activities that should be fully costed to agencies (e.g., Treasury check writing) won't because those Agencies will continue to receive appropriations and have no incentive to establish reimbursable agreements without OMB guidance.

5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the provisions of this proposal.

a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:

- i. Significance to the entity – The cost of the good or service is large enough that management should be aware of the cost when making decisions.
- ii. Directness of relationship to the entity's operations – The good or service provided is an integral part of and necessary to the output produced by the entity.
- iii. Identifiability – The cost of the good or service provided to the entity can be matched to the entity with reasonable precision. Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

Yes, additional guidance is necessary. A cost may be significant to the receiving entity but not to the providing entity. If the providing entity does not provide full cost details, the receiving entity cannot comply. Also, identifiability is a problem for costs that are broad and general in nature but should be fully costed because correct allocation of indirect costs may be difficult.

b. SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

Yes, additional guidance is necessary. Environmental assistance (e.g., EPA, NPS, DOI), legal assistance (e.g., DOJ), financial assistance (e.g., Treasury, OMB) are three areas that are general in nature but can be specifically identifiable to the receiving Agency.

#7 – Department of Housing and Urban Development, Monica Clarke, Federal preparer

1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 –115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

Yes. HUD agrees with this proposal. However, we would appreciate further guidance on implementation.

2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

Yes. As a first step, specific cost should be recognized on a step-by-step basis to encourage consistency government-wide. However, if the intent is to capture full cost, agencies with additional costs that are not government-wide in nature should be required to report these costs.

3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page19)? Please provide examples and/or explain your answer.

HUD may have some non-reimbursed costs that meet the definition of inter entity cost, but do not necessarily meet the recognition criteria of materiality. For example, benefits derived by specific program offices from work done by Inter Agency Council on Homelessness.

4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Yes. As the Office of Management and Budget, as part of the PART process, evaluates agency programs for demonstrated program cost and outcomes, agencies will accordingly seek reimbursable agreements or modify existing agreements to recognize full cost.

5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the provisions of this proposal.

a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:

i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions.

ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.

iii. Identifiably -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision. Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

Yes. Additional guidance would be helpful since the Inspector General community will audit inter entity cost based on the requirements in the standards. Guidance should be expanded to state whether all three factors must be met prior to recognition.

b. SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad

and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

Yes. Guidance that includes specific examples of costs that are related to broad and general support would be helpful in interpreting the standard.

#8 – AGA Financial Management Standards Board, Russell W. Hinton, CGFM, Chair, Non-federal Other

Ms. Comes:


The Association of Government Accountants (AGA) Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board's (FASAB) Exposure Draft *"Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts"* (ED). The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members.

The majority of FMSB members agree with the proposal to set an implementation date for requiring costs covered by other reporting entities to be included in the full cost of outputs to be included in general purpose financial reports. The amendment would ensure that all material costs are included in full cost measures. Inter-entity costs need to be accounted for, and their inclusion results in a truer picture of the actual costs of services being provided by federal departments. It also allows for comparability between federal services and private providers. However, one also needs to consider the costs associated with compiling and reporting this information, and whether it simply adds another layer of bureaucracy to the process. The proposed requirement does allow entities time to develop internal guidance on recognizing inter-entity costs, seek implementation guidance, or establish reimbursable agreements. FMSB responses to the specific questions asked by FASAB, including the concerns of one member who has some issues with the proposal, are included as an attachment to this letter.

The FMSB appreciates the opportunity to comment on the ED. This response letter represents a consensus of the views of the FMSB members. No FMSB members objected to its issuance. We would be pleased to discuss this letter with you at your convenience. You can contact me at hintonrw@audits.state.ga.us or (404) 656-2174 or

Anna D. Gowans Miller, CPA, AGA's Technical Manager and facilitator for this project, at amiller@agacgfm.org or (703) 684-6931, ext. 203.

Sincerely,

A handwritten signature in black ink, appearing to read "Russell W. Hinton". The signature is fluid and cursive, with a large initial "R" and a stylized "H".

Russell W. Hinton, CGFM, Chair,

AGA Financial Management Standards Board

ATTACHMENT A

Questions for Respondents

1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105–115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

The majority of FMSB members agreed with the proposal. Several suggested that an even earlier date should be considered, as this information is relatively easy to determine for full costing. One member had some issues with the proposal as identified in the paragraphs below.

2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

The majority of FMSB members opposed the alternative views proposal. Its opinion is that each federal agency should take responsibility for the accuracy and completeness of its financial information rather than relying on other parties such as the FASAB to deal with agency-specific issues or dictate which costs should be included. Although Mr. Reid correctly points out that the proposed statement goes beyond what SFFAS 4 had planned, the goal to fully disclose the cost of providing services remains. The proposed statement would appropriately be applied only to material items. It is likely

that certain costs may be material to one department and not material to another. While the potential exists for reporting differing inter-entity costs among different departments, these inconsistencies should not bar the way to informing financial statement users of material costs incurred to provide the services of that government unit.

One member thought that Mr. Reid makes a valid point about the potential differences of opinion between auditors and preparers on what is material. This becomes a matter of “professional judgment.” Currently, the two groups have disagreements on many other items related to financial statement preparation and “professional judgment”. It would be unfortunate if this proposal were to add inter-departmental costs to the areas for potential disagreement.

His views here are influenced by the fact that no one has been able to identify any additional major inter-departmental costs that should be included in the financial statements. The AAPC was not able to identify such costs and FMSB members were not able to do so. The question that then arises is “are we tilting at windmills?” In his agency he knows of a few un-reimbursed inter-departmental costs, but none of them rises to the level of materiality that requires financial statement treatment.

Rather than just eliminate the current requirement, he would like to see if there are any costs that are really of concern, either government wide or for specific agencies, and then decide how to treat this matter. If there are large government wide inter-departmental costs, let us identify them (while continuing to exclude “broad and general” support). If not, let us examine if there are specific costs that need to be dealt with and make the decision then. He wondered whether the inclusion of inter-departmental costs in the financial statements has influenced any operating or investment decisions by any agency manager. They are not relevant for day-to-day decision-making.

3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page19)? Please provide examples and/or explain your answer.

Although FMSB members were not aware of any specific examples, they thought that certain costs were likely to be missed, especially with the number of IT systems that do not “talk” to each other.

4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

The FMSB thought it was possible, or even probable, that agencies would alter their agreements so as to capture the costs and recover them appropriately, if this new requirement identifies under or over charges. It also thought that there might be some anti-deficiency act issues, if it becomes apparent that some agencies are providing non-reimbursed services to other agencies out of their appropriated funds. If there will be

significant additional reimbursable agreements, there may have to be a change in the way in which funds are appropriated. For example, if agency A provides non-reimbursed services valued at \$1 million to agency B, those funds are included in the appropriation for agency A. If agency B now has to pay for those services, the \$1 million should be appropriated to agency B; otherwise it will run into the anti-deficiency issue or will be required to reduce other mission related activities.

5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the proposal provisions.

a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:

i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions.

ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.

iii. Identifiability -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision. Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

The FMSB thought that this was appropriate and allowed for professional judgment. The three factors are sufficient to allow accountant and auditor to reach a consensus on which costs to consider material.

b. SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

Additional guidance is not needed at this time; it should be left to the discretion of the accountant and auditor of the agency. FASAB should monitor agency implementation and be prepared to answer issues as they arise. It might be useful to develop a list of activities that would fall under this category to assist agencies in understanding this issue.

#9 –U.S. Nuclear Regulatory Commission, Leon Fleischer, Federal preparer

Below are the U.S. Nuclear Regulatory Commission's comments on the FASAB Exposure Draft "Inter-Entity costs:Amending SFFAS ". We are responding to the questions posted to respondents in the draft.

1) **Question:** This exposure draft proposes that inter-entity cost provisions of SFFAS 4 (par. 105-115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternatives you would prefer?

1) **Comments/Response:** The requirement to fully implement the inter-entity cost provisions of SFFAS (par. 105 - 115) for reporting periods beginning after September 30, 2007 is reasonable **if** the standard identifies specific costs or types of costs to be recognized and additional procedures and policies are put in place. The exposure draft provides limited information as to the recognition requirement. What types of costs are applicable? For example, a Federal entity receives invoices for computer services from another Federal entity based on estimated hours and is then charged for additional actual hours during a future period. Is this example descriptive of under - reimbursed inter-entity cost that should be recognized. We feel that FASAB should identify specific inter-entity costs that are to be recognized as was originally intended in FASAB # 4. We agree with excerpts from the AAPC Task Force that, "there should be detailed, practical guidance available to agencies on identifying, quantifying, and evaluating inter-entity costs, particularly evaluating the inter-entity costs's significance and materiality. For example, guidance could include case studies and examples, and a list of examples of inter-entity costs could be issued". We also agree with AAPC Task Force finding, "there should be established policies and procedures for the providing agency to submit necessary data to the receiving agency". How do we know that providing agencies will willingly provide this data to receiving agencies. Without official guidance and procedures in place, there may not be the outcome that is expected from the implementation of this standard.

2) **Question:**Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing?

2) **Comments/Response:** We agree with Mr. Reid that specific costs be identified that constitute inter-entity costs. As stated above, we feel that FASAB should identify specific inter-entity costs that are to be recognized.

3) **Question:** Do you believe there are now non-reimbursed inter-entity costs meeting recognition criteria established in SFFAS 4?

3) **Comments/Response:** It would be extremely difficult, if not impossible for receiving entities to recognize applicable under-reimbursed inter-entity costs without further guidance and policies in place. Non-reimbursed inter-entity costs are more apparent to the receiving entity. What responsibility does the receiving entity have for recognizing under-reimbursed costs? We would like FASAB to identify specific inter-entity costs that are to be recognized and issue additional guidance and policies for providing agency to submit necessary data to the receiving agency in order for agencies to recognize under-reimbursed inter-entity costs.

4) **Question:** Do you believe that federal entities will seek additional reimbursable agreements (increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized?

4) **Answer:** Yes, we believe this will lead to agencies seeking additional reimbursable agreements such as increasing fees. If more costs are now recognized (inter-entity costs), and agencies are required to recover costs by charging fees, these agencies will probably either adjust/increase their fees or seek additional reimbursable agreements to recover their additional costs.

5) **Question:** SFFAS 4 provides 3 factors to consider in determining whether an inter-entity cost is material to the receiving entity. The factors are significance, directness, and identifiability. Is additional guidance needed?

5) **Response:** Is it possible to receive clarity on the **directness** of the relationship to the entity's operations? If the costs associated with the goods or services being provided are allocated to more than one program or output, is it still considered integral? The exposure draft includes **significance** to the entity as a determinate of materiality for the receiving entity. Also, it is stated that "The cost of the goods or services is large enough that management should be aware of the costs when making a decision." Is **materiality** also determined by the importance of the goods or services provided to the receiving entity in completing the mission associated with a particular program or output? We would like more guidance issued defining what constitutes significance, directness, and identifiability. There are definitions in this standard of each of these terms, but we still feel that without additional guidance this is subjective and open to interpretation to each agency which could lead to inconsistent reporting across the government.

6) **Question:** SFFAS 4 provides that inter-entity cost recognition is not required if under-reimbursed or non-reimbursed costs are related to broad and general support. Is additional guidance needed to apply this exception?

6) **Response:** For this exposure draft, does the absence of an inter-agency agreement or some other formal agreement eliminate a determination of recognition. Please clarify.

#10 – Environmental Protection Agency, Lorna M. McAllister, Acting Director, Office of Financial Management, Federal preparer

Dear Ms. Comes:

Thank you for providing the Environmental Protection Agency (EPA) the opportunity to comment on the Federal Accounting Standards Board's exposure draft, "Inter-Entity Cost Implementation." EPA supports the concept of recognizing inter-entity costs when measuring the full cost of programs and their outputs. However, we believe that full implementation as envisioned in the proposed Exposure Draft is not the best approach. Placing the onus on individual entities to identify additional material inter-entity costs will create uncertainties and inconsistencies in the recognition of such costs, hinder good cost accounting, and detract from the goal of consolidated federal financial statements. For these reasons, EPA prefers the alternate proposal to continue with gradual implementation of the inter-entity cost provision as currently set forth in the Statement of Federal Financial Accounting Standards (SFFAS) 4.

Gradual implementation will avoid opening a multitude of potential audit issues that may impact entities' financial statements. For example, auditors may decide to judge materiality differently than the entity. What the auditor considers to be significant or integral or identifiable to the entity's output may differ from the entity's interpretation of these factors. Moreover, we believe that the requirement for entities to obtain actual or estimated costs from providing entities for non-reimbursed and under-reimbursed costs will create financial statement issues unless policies and procedures are established to obtain this information in a standardized way to ensure that adequate documentation is available to auditors.

If the Board goes forward with full implementation, the Board must ensure that federal entities receive appropriate guidance on which costs to recognize and how to apply the recognition criteria beyond what is currently contained in SFFAS 4. Additional guidance is necessary not only to clarify materiality provisions, but also to assist agencies with the following: identifying which types of inter-entity costs fall under the standard; applying indirect cost rates to achieve full costing of reimbursable transactions; addressing potential augmentation issues associated with billings for indirect costs; and developing auditable estimates for imputed costs.

EPA believes that the Board has not thoroughly evaluated the costs and benefits of the full implementation provision. In contrast to the gradual, step-by-step recognition approach currently used, full implementation will require agencies to: focus a significant amount of already scarce resources to identify and record additional costs; compute indirect cost rates to fully cost their reimbursable agreements; obtain legal opinions regarding augmentation issues; obtain cost information from other entities; and address the inevitable audit issues that will arise from different interpretations of the recognition provision.

Finally, EPA questions the appropriateness of the Board's going forward with full implementation before addressing the significant problems already associated with reconciliation of federal trading partner accounts. Currently, there are tens of billions of dollars in unreconciled trading partner accounts government-wide. The Board should focus first on the need to solve reconciliation process issues associated with intra-governmental payables and receivables before requiring agencies to recognize additional inter-entity transactions. Some of the issues to be addressed are the lack of a common reconciliation process for all agencies to use and the absence of document cross-referencing to track transactions. Furthermore, agencies are not required to provide account information or even to respond to inquiries concerning their reimbursable accounts. As the difficulty in reconciling trading partner accounts attests, to require full implementation of inter-entity cost recognition without a gradual, consistent and controlled approach to implementation will simply create greater reconciliation problems for federal agencies.

Our responses to the questions contained in the Exposure Draft are enclosed. If you or your staff have any questions concerning our responses, or if we can be of further assistance, please contact lantha Gilmore at (202) 564-7654 or Ellen Rajewski at (202) 564-4977.

Sincerely,

Lorna M. McAllister /s/

Acting Director

Office of Financial Management

Office of the Chief Financial Officer

Enclosure

Questions for Respondents

1. This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105-115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

Response:

EPA does not agree with the proposal to fully implement the inter-entity cost provision of SFFAS 4 effective for reporting periods after September 30, 2007. Although EPA acknowledges the importance of recognizing the full costs of the products and services that federal entities provide to and receive from other entities, we do not believe that the Board's approach will best serve the federal community.

EPA objects to full implementation because we believe that costs will not be recognized consistently, that guidance on applying the recognition criteria is insufficient, that significant implementation issues beyond the scope of whatever guidance the Board may provide will occur, and that full implementation will open the door to substantial audit issues.

Sole reliance on each entity's judgment in identifying inter-entity costs to be recognized will result in differing interpretations of cost recognition. This will create imbalances between entities and lead to disputes as to the appropriate treatment of costs. For example, if the cost of a reimbursable service is material to the receiving entity but not to the providing entity, it will not be recognized by both entities. If these differences cannot be reconciled, they will adversely effect consolidated government financial statements.

The development and application of indirect cost rates to fully cost reimbursable agreements and the augmentation issues stemming from recovering those costs will also create uncertainties. For example, it may be cost-effective to develop a broad general and administrative indirect rate but not to develop program-specific indirect rates.

EPA has the following questions that need to be addressed when considering implementation of inter-entity costs:

- Will specific program rates be required to satisfy the full cost requirement of SFFAS 4?
- What about the use of provisional versus actual rates? If provisional rates differ from actual rates, will entities then be obliged to issue extra billings to recover the additional costs or to provide refunds for recovering too much?
- What happens when recovery of indirect costs is legislatively capped? If an entity or a program will never be able to recover its full indirect costs, why should it be required to recognize the unreimbursed portion?
- Will entities be legally permitted to retain the proceeds from indirect costs without augmenting their appropriations or will it be necessary to remit the funds to Treasury? If so, will agencies be able to charge a collection fee to cover the cost of remitting these funds?

- How will agencies obtain actual costs or estimated costs for under-reimbursed goods and services from providing entities given that they cannot compel federal trading partners to provide cost information to enable the reconciliation of intra-governmental payables and receivables now?
- How will entities provide suitable documentation to auditors for these imputed costs?

Entities cannot necessarily rely on market value as a proxy for the cost of their goods and services given that government entities frequently provide unique goods and services not replicated in the business sector. If entities are unable to produce satisfactory documentation for audit purposes and if the costs involved are material, it may impair their financial statement opinions.

The Board has stated that it believes that by setting a future date certain for implementation, agencies will be afforded sufficient time to obtain the necessary guidance “as needs are identified.” The Board also states that agencies may use the time period between issuance of the final standard and the actual effective date to modify reimbursable agreements to reflect full cost, to seek implementation guidance or to develop internal guidance on full cost recognition of inter-entity costs. The Board is unclear as to exactly how this guidance will be developed. Will each agency prepare its own implementation guidance or will the Board issue standard implementation guidance applicable to all federal agencies? Will the Board address agencies’ implementation issues on an individual case-by-case basis? If so, how will the various responses be coordinated so that consistent government-wide application of the standard among all federal entities is achieved? The Board’s lack of clarification on the issue of implementation guidance has the potential to create a situation in which agencies will be uncertain as to which costs they are required to recognize and how to apply the standard’s criteria for cost recognition to those costs. Without consistent recognition of costs and application of the standard, there will be tremendous variation in how federal entities interpret a full implementation standard. The result will be a lack of comparability within and between federal entities.

EPA prefers that the Board adopt the alternate proposal by Mr. Reid as explained below.

2. Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

Response:

EPA endorses the alternate proposal by Mr. Reid to gradually implement the inter-entity cost standard. The Reid proposal reflects many of our concerns regarding how inter-entity costs will be identified and how the standard’s cost recognition criteria will be

applied. We do not believe that the inter-entity cost standard can be implemented in a practical and consistent manner by abandoning the “case-by-case” approach in favor of “opening the door to all costs.” We maintain that a continued phased-in implementation of the standard with OMB’s taking the lead in identifying specific costs for agencies to recognize will ensure consistency of cost recognition among federal entities and will be important in achieving consolidated government-wide financial statements. This approach will also alleviate confusion between auditors and agencies over what to recognize and how.

3. Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113? Please provide examples and/or explain your answer.

Response:

All interagency agreements (IAGs) for which EPA is the providing agency are partially reimbursed because we currently do not bill for indirect costs. EPA’s reimbursable agreements to provide environmental assessment, environmental clean-up and environmental oversight services will most likely meet the recognition criteria cited. We are currently developing an indirect cost rate to apply to our interagency agreement with the Coast Guard to provide oil spill clean-up services. This rate could ultimately be applied to all IAGs in which EPA is the service provider.

We believe that the majority of our material interagency agreements for significant goods and services are fully reimbursed. These would include Superfund cleanup services provided by U.S. Army Corps of Engineers, Superfund enforcement services provided by the Department of Justice, and building and facilities services provided by the General Services Administration. We do not know if there are under-reimbursed costs associated with services we receive from other federal entities under other interagency agreements because they have not shared their cost information with us. However, we believe that the goods and services from these agencies are not likely to meet the criteria for full cost recognition. EPA also purchases goods and services through Government-wide Acquisition Contracts (GWACs) with two federal agencies. These agencies charge EPA an administrative fee for overall contract management. We do not know if these fees reflect full cost assuming that GWACs fall within the scope of the inter-entity cost provision.

4. Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Response:

We cannot predict whether other federal entities will increase fees for non-reimbursed or under-reimbursed agreements. As stated in the response to question 3 above, EPA

intends to include indirect costs in future reimbursable agreements beginning with our reimbursable agreement with the Coast Guard for oil spill cleanup services. However, our decision to include indirect costs for reimbursable agreements was made independently of the FASAB proposal to amend the inter-entity cost provision of SFFAS4.

5. Is additional guidance needed to apply the materiality factors? If so, please indicate what specific questions you have regarding the application of these factors.

Response:

We believe that additional guidance to apply the materiality factors is necessary. SFFAS 4 states that determining whether a cost is material requires “considerable judgment” based on the facts and circumstances of each transaction. EPA has the following questions on this issue:

- How will the Board ensure that an agreement material to one entity but not material to another entity receives the same treatment by both entities? In this case, if the former records the transaction but the latter does not, interagency eliminations will not balance.
- At what level will costs be considered material? Will materiality occur at the appropriation/fund level or at the program level or at the transaction level? At EPA costs are collected at the goal, objective, program project and activity levels. At which of these levels will inter-entity costs be deemed material? This will be a matter of interpretation and the Agency’s interpretation may not coincide with that of the auditors.
- Another issue is whether materiality should be set at a particular threshold. This may more objectively contribute to making the determination as to whether a cost is material, but again, at which level should the threshold be applied?
- Finally, the meaning of “significance” to the entity should be clarified. Should significance be judged based on both a qualitative and a quantitative basis?

To avoid these uncertainties and the potential impact on agencies’ financial statements, the FASAB must issue detailed guidance about how to apply the materiality factors.

6. SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities’ output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

Response:

The current guidance on applying the broad and general support exception is sufficiently vague as to require additional guidance for implementation.

Three entities provide EPA with services that are vital to complete its mission. The Department of the Treasury, Financial Management Service processes and pays EPA disbursements to pay employees, contractors and grantees. Treasury's Bureau of Public Debt provides debt collection and cash management services. EPA receives litigation support from the Department of Justice (DOJ) which is crucial to our environmental enforcement activities. The current guidance is not clear as to whether the cost of these services should be treated as broad and general support and therefore unrecognized or whether they are integral enough to our operations to be recognized under SFFAS 4.

The conclusion of the Accounting and Auditing Policy Committee Inter-Entity Costs Task Force was that none of the above-mentioned services should be selected as additional required areas of inter-entity costs and should continue to be treated as broad and general support costs. However, it left open the possibility that for some agencies, the cost of these particular services could be considered integral or material to their financial statements, but it did not specify additional criteria for making this determination. For litigation services provided to EPA by DOJ, the Task Force consensus was that these costs should be captured through inter-agency agreements.

The recognition criteria in paragraph 112 of SFFAS 4 states that "some services provided, under certain circumstances, should still be recognized even though they may be considered broad and general in nature if such services are integral to the operation of the receiving entity. Such services include check writing by the Department of Treasury or legal activities performed by the Department of Justice." In the following paragraph, the standard once again reiterates that the decision as to whether or not to recognize these types of costs requires judgment and should be decided based on the "specific facts and requirements of each case."

The FASAB should elaborate on the types of situations that would require an agency to recognize these costs. In particular, it should provide specific examples of when such services require recognition, guidance on how to determine whether such services are "integral" even though they may not involve large dollar amounts, and under what circumstances these costs should be recognized for financial statement purposes. As in the case of materiality, detailed implementation guidance is necessary to ensure that there is a "meeting of the minds" between agency management and auditors over the appropriate treatment of these costs.

#11 – Department of the Treasury, Jim Lingeback, Federal preparer

Treasury Response to Question No. 1:

We do not agree with the Board's description of par. 110 as an impediment to implementation. Had the responsibilities assigned in par. 110 been more fully addressed by the named bodies, this amendment would be unnecessary. We agree with the view expressed by Mr. Reid in Appendix B. par. 14.

Treasury Response to Question No. 2:

The Department fully agrees with the views expressed by Mr. Reid.

When OMB issued guidance to Federal agencies as required by par. 110, in 1998, agencies recognized the costs identified by OMB in a consistent manner. OMB stated that further guidance would be issued. OMB has not issued any further guidance. We do not believe that OMB should be removed from this role by deleting the sentence "Such recognition, however, should be made in accordance with the implementation guidance issued by OMB as discussed above." When OMB issued guidance, the inter-entity cost provision of the standard was implemented as envisioned by the Board. In the absence of further OMB guidance, progress toward further implantation ceased.

We also believe that lack of agency guidance from OMB will make it extremely difficult for auditors to determine the completeness of Federal financial statements (AICPA Codification of Statements on Auditing Standards, AU Section 9326.18 -.21). In addition, receiving Federal agencies will be left at the mercy of providers. If the provider cannot or will not provide auditable cost information, the audit opinion of the receiver will be placed in jeopardy.

Treasury Response to Question No. 3:

The Department's Financial Management Service does not provide check writing cost information to other Federal agencies. If the Financial Management Service cannot match these services to receiving entities with reasonable precision, are receiving entities exempted from imputing the costs (see response to Question No. 5a below)?

We believe that costs described as broad general support, as in par. 112, are particularly difficult to identify **both intra and inter-entity**. These costs also have great potential for controversy between the provider and the receiver.

Treasury Response to Question No. 4:

The Department does not have a comment.

Treasury Response to Question No. 5:

a)

Significance – A single imputed cost may not be of significance to management by itself. However, the aggregation of imputed costs from the same or different sources may be significant. For example, management may decide that a \$1 million imputed cost from the General Services Administration is not significant to a product or service. However, if the \$1 million imputed cost is aggregated with ten other imputed costs of \$1 million, the total of \$11 million may be significant to the product or service. Should aggregation be considered when determining significance?

Directness – Costs that are currently being imputed by agencies at year-end when they are identified by the provider. These costs are mainly assigned at a high level (entity) rather than identified with a particular good or service. How can agency management control the costs of their goods or services if they are not in control of the costs being incurred by the provider and imputed cost information is not received until after the reporting period is over?

Identifiability – If a cost cannot be assigned to a receiving entity by a provider, with reasonable precision, it appears that the receiving entity is exempted from imputing the cost. Is this correct? How is reasonable precision defined by FASAB? How will receiving entity auditors determine that the providing entity cannot identify the cost, with reasonable precision, for the receiving entity?

b) The problem is both identifying the costs that meet the exception and identifying those that are “exceptions to the exception.” If a receiving agency believes that a service is an exception to the exception and the provider disagrees, how will these types of situations be resolved?

Does broad general support apply to both intra-entity and inter-entity imputed costs?

Activities:

- Departmental Services (intra-entity)
- Information Systems
- Security
- Recruitment
- Financial, performance and compliance audit services, such as those performed by GAO (GAO performs financial audits of the IRS and Bureau of Public Debt without reimbursement)

#12 – Financial Management Service, David Hesch, Federal preparer

Financial Management Service Comments to the FASAB Inter-Entity Cost Implementation for FY 2008

The Federal Accounting Standards Advisory Board (FASAB) issued an exposure draft entitled *Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*.

FASAB proposed revisions to the Statement of Federal Financial Accounting Standards (SFFAS) 4 and requested comments from federal reporting entities. The revised accounting standard will require that reporting entities report the full costs of outputs in general purpose financial reports. Full costs of outputs will include operating costs covered by other reporting entities. These costs are referred to as “inter-entity costs.”

The proposal in this exposure draft attempts full implementation of the full cost standards in FY 2008.

The Financial Management Service (FMS) reviewed the exposure draft and evaluated the impact of proposed changes. FMS agrees with the opinions of Mr. Robert Reid, which appear in **Appendix B: Alternative View** of the exposure draft.

- FMS opposes rescinding paragraph 110 and a portion of paragraph 111 of SFFAS 4.
- FMS recommends that FASAB implement full cost accounting, step-by-step, beginning with the largest and most important inter-entity costs.
- FMS believes that FASAB should identify specific inter-entity costs for full costs of outputs if FASAB is unhappy with progress being made in this area. Such action by FASAB would help to ensure consistency and would not result in loss of control.
- FMS believes that losing control over the recognition of inter-entity costs can result in a lot of activity that yields little or no value. Loss of control will expose agencies to questions and challenges over unknown costs or what may be immaterial costs.

If you have any comments or questions, please contact David Hesch, at (202-874-1075) or (David.Hesch@fms.treas.gov).

#13 – U.S. Department of Health & Human Services, Shirl Ruffin, Director, Office of Financial Policy, Federal preparer

August 2, 2004

Wendy M. Comes, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6K17V
441 G Street, NW, Suite 6814
Washington, DC 20548

Dear Ms. Comes:

Thank you for the opportunity to comment on FASAB's recent exposure draft: "Inter-Entity Cost Implementation." We concur with the Board's proposal to require full implementation for reporting periods beginning after September 30, 2007.

We have included our specific responses to the "Questions for Respondents" in an enclosure to this letter. Should you have any questions you may contact Kevin Kuesters from my staff (202/690-6214).

Sincerely,

Shirl Ruffin
Director, Office of Financial Policy
U.S. Department of Health & Human Services

cc: George Strader, Deputy CFO

Enclosure

1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 - 115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

Yes, we agree.

2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

No, we do not agree. Since most inter-entity costs which are material are reimbursed, by default most inter-entity costs which are not reimbursed are not material. We don't believe the Board can identify every instance where inter-entity costs are material across the Federal Government, and instead believe it is better to leave it to management's judgement (of course subject to audit) as to whether a non-reimbursed cost incurred is material to the individual agency's financial statements. If OMB identifies any inter-entity costs which they feel are significant across government, they can always identify those costs in their Form and Content bulletin.

3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page19)? Please provide examples and/or explain your answer.

Yes. In HHS we have the Public Health Service Commissioned Corp. Officers in the Commissioned Corp serve in medical capacities in various locations for various programs across HHS. Each of our HHS Operating Divisions (OPDIVs) reports an imputed cost and imputed financing source for the salaries and expenses related to Commissioned Corp Officers working in their OPDIV. These amounts are material to the individual OPDIVs, but are eliminated at the HHS level.

4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Who knows; some agencies will, and some will not. Most likely agencies who already have reimbursable agreements will include any under reimbursed inter-entity costs in their billing algorithms for futures billing periods, but these will mostly be smaller, immaterial amounts.

5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the provisions of this proposal.

a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:

- i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions.
- ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.
- iii. Identifiability -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision.

Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

No additional guidance is needed; these factors are self-explanatory.

b. SFFAS 4 provides that inter-entity cost recognition is not required if the under reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an

integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

If you define broad and general support as being provided to all or most entities of the Federal government, then you would need to have OMB or FASAB identify what support services are included in this category, to ensure consistency across all federal reporting entities. For example, OMB provides general administrative services for the agencies such as oversight and budget formulation, whereas Treasury provides specific administrative services to the agencies such as cutting checks and managing investments. Agencies which process a lot of checks (e.g., Social Security) may have significant inter-entity costs which they should impute, but other agencies would not impute these costs. This would lead to inconsistent application by the various federal agencies.

#14 – US Department of Agriculture, John G. Brewer, Associate Chief Financial Officer, Financial Operations, Federal preparer

July 30, 2004

Dear Ms. Comes:

The Department of Agriculture (USDA) appreciates the opportunity to comment on the exposure draft, *Inter-Entity Cost Implementation Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts*. Our responses to two of the questions for respondents contained in the exposure draft follow:

Question 1: This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 – 115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

Yes, we agree with an implementation date after September 30, 2007. However, we believe that federal agencies would benefit from additional detailed, uniform guidance for specific inter-entity costs.

Question 2: Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

Yes, we agree with Mr. Reid. Identifying inter-entity costs (especially when they are not fully charged to the “benefiting” agency) is an extraordinarily complex task. If agencies individually embark on this effort without the benefit of uniform guidance for specific inter-entity costs, there will be double counting and other inconsistent accounting treatment practiced government-wide.

Thank you for the opportunity to comment.

Sincerely,

John G. Brewer

Associate Chief Financial Officer

Financial Operations

#15 –Department of Health and Human Services, Office of Inspector General, Office of Audit Services, Vera Garrant, Director, NEAR and Financial-Related Audits, Federal auditor

TO: Wendy Comes, Executive Director
Federal Accounting Standards Advisory Board

FROM: Office of Inspector General, Office of Audit Services,
Department of Health and Human Services

We appreciate the opportunity for commenting on the exposure draft of the proposed Statement of Federal Financial Accounting Standards entitled *Inter-Entity Cost Implementation*. We have provided our comments based on the questions contained in the exposure draft.

1). Do you agree with the proposal to fully implement paragraphs 105 – 115 of SFFAS 4 by September 30, 2007?

No, we do not agree with the establishment of this date for the full implementation of SFFAS 4 for the following reasons:

ATTACHMENT 1 – TEXT OF COMMENT LETTERS

- 1) The Accounting and Auditing Policy Committee (AAPC) task force did not find material non-reimbursed or under reimbursed inter-entity cost.
- 2) If as the board believes, that there is no guarantee reimbursable agreements would be obtainable or pursued across the Federal Government, then the judgment exercised by agency officials that has determined amounts are not material, needs to be reviewed. This additional analysis should be performed by FASAB to understand why those inter-entity costs are currently excluded.

2). Do you agree with the proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4?

Yes, if the board believes that contrary to the AAPC task force findings that non-reimbursed or under-reimbursed inter-entity costs are not being captured by an agency's financial statements. Then this becomes a matter of assessing what costs are missing, the judgment used by officials to determine that those costs were not reportable, or has the SFFAS No. 4 been misapplied.

After the reasons for the current disconnect between FASAB's expectations and agency performance has been determined. Then FASAB and the agencies can develop a plan to implement the recording of inter-entity costs at the appropriate level.

Should you have any questions regarding our comments, please contact Vera Garrant, Director, NEAR and Financial-Related Audits at 202-619-3189.

#16 – US Department of Interior, P. Lynn Scarlett, Assistant Secretary-Policy, Budget and Management, Federal preparer

Ms. Wendy M. Comes
Executive Director
Federal Accounting Standards Advisory Board
441 G Street, NW
Washington, D.C. 20548

Dear Ms. Comes:

Thank you for the opportunity to comment on the Federal Accounting Standards Board Exposure Draft, "Inter-Entity Cost Implementation - Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts." We recognize that full cost identification and recognition, when done appropriately, improve the value of financial information. Implementing the proposed approach will result in more costs than benefits and no increased value or benefit to other Federal agencies and taxpayers.

Accordingly, the Department of the Interior does not concur with the Exposure Draft's proposed rescission of paragraph 110 and a portion of paragraph 111 of Statement of Federal Financial Accounting Standards (SFFAS) No. 4. We support the alternative approach presented by Mr. Robert Reid in Appendix B. His recommended approach would better accomplish the Board's objectives and ensure that agencies appropriately capture the full cost of operations.

Please see our responses to specific questions in the enclosure. Thank you again for the opportunity to comment on this Exposure Draft. Please contact Daniel Fletcher at 202-208-5225 if you wish to discuss our comments further.

Sincerely,



P. Lynn Scarlett
Assistant Secretary-Policy, Budget and
Management

Enclosure

1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 – 115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

We do not concur with the proposal in the Exposure Draft. The full cost of agency operations is necessary for true program management. However, the proposal does not provide enough structure and guidance to agencies. This lack of structure will result in unnecessary searches for imputable costs that do not add value to the quality or usefulness of cost data.

There are a vast number of initiatives and activities that cross Federal agencies. For example, the standard setting activity by FASAB requires that time be spent by individuals at other Federal agencies to research accounting issues, respond to staff inquiries, review Exposure Drafts, and otherwise participate in the standard setting process. One could argue that the cost of those services, being critical to the standard setting process, should be imputed by FASAB and included in the “full cost” of developing accounting standards. This, of course, is not a reasonable interpretation. However, there is nothing in SFFAS #4 as amended by the current exposure draft to indicate that such an interpretation would be incorrect.

Without clear and specific guidance to define the costs to be imputed, this proposal is very likely to result in expensive and time consuming accounting exercises, and potential disputes with auditors.

We support a more targeted approach, such as the one proposed by Mr. Reid.

2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

On the whole, we concur with the alternative views presented by Mr. Robert Reid. We concur that a measured, step-by-step, practical approach to implementing the inter-departmental costing standard is critical. Such an approach, agencies will provide the guidance needed to make consistent and appropriate decisions on which costs are to be recognized. This approach should include:

- A generally accepted approach and methodology for identification of significant costs that should be imputed;
- Consideration of whether the costs would impact the calculation of billings to the public, along with recognition that billings to the public based on cost of services may have to be increased to cover these costs. Currently these costs are overwhelmingly funded by General Fund receipts; and
- Guidance for the provider and receiving entity to ensure appropriate accounting treatment by both parties. Specifically, while it might be appropriate for one entity to impute costs, it may not follow that the providing entity should “impute” revenue. If the range of imputed costs is to be expanded, then additional guidance is needed for the providing agency.

3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page19)? Please provide examples and/or explain your answer.

Yes, there are non-reimbursed inter-entity costs that meet the SFFAS recognition criteria. The Department of the Interior identified one such circumstance related to the Bureau of Reclamation’s Water and Irrigation Projects prior to the adoption of SFFAS #4. These costs are a component of full cost for determining billings to the public, and include estimated interest during construction and costs incurred by other Federal agencies, such as the Western Area Power Administration, Bureau of Public Debt and Corps of Engineers. Interior discussed this situation with the Office of Management and Budget after the adoption of SFFAS #4, and it was determined that Reclamation should continue to impute these costs.

We are not aware of other costs that should be imputed for fair presentation of financial statements or for accurate management and billing information. However, a procedure should exist to ensure that such costs are captured and imputed. These procedures should be specific enough to ensure that only costs significant to the agency are imputed and that time and resources are not devoted to insignificant items.

4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Seeking additional reimbursement for newly recognized expenses is a logical expectation. If costs are recognized, anti-deficiency laws would require corresponding revenue increases or other cost decreases. These complications make predicting the likelihood of wholesale fee increases unrealistic, and if there is no intent to increase fees these efforts are unnecessary. Accounting procedures should accurately capture the substance of transactions, and timely, accurate and reliable accounting information must be available to managers for decision-making. However, it does not follow that the desire to simplify accounting procedures should drive management decisions.

Decisions regarding the number of reimbursable agreements and the situations in which reimbursable agreements are appropriate should be made by agency management, the Office of Management and Budget and Congress based on what is most appropriate and efficient for the management of the government. In addition, it should be recognized that there is a real cost associated with establishing and monitoring reimbursable agreements, and with the transfer of funds between operations and agencies. It should be left to managers at all levels of government to determine the cost-benefit of reimbursable agreements. Increasing the amount of paperwork between federal agencies by increasing the number of reimbursable agreements will not increase the accuracy or usefulness of management information. Reimbursable agreements are one of many tools available to management and should not be viewed as a “one-size fits all” solution.

It should also be noted that providing services to other government agencies is a relatively small part of the mission and operations of most government agencies. In addition, most public services provided by the Federal government are funded by general fund receipts, and the beneficiaries of those services are not billed.

5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the provisions of this proposal.

a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:

- i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions.***
- ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.***

iii. Identifiability -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision.

Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

b. SFFAS 4 provides that inter-entity cost recognition is not required if the underreimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the

federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

For both A. and B. above, we believe that the guidance in SFFAS #4 is clear, and that the guidance in the above paragraphs is sufficient as long as reasonable and well-defined procedures for the identification of imputed costs is adopted. However, if the proposal in the Exposure Draft is adopted, we do not believe that any amount of clarification of the above paragraphs will prevent the standards from being applied to insignificant and inappropriate costs.

**#17 – Greater Washington Society of Certified Public Accountants’
(GWSCPA) Federal Issues and Standards Committee, Daniel L.
Kovlak, Chair, Non-federal Other**



Greater Washington Society of CPAs and GWSCPA Educational Foundation

1828 L Street, NW, Suite 900, Washington, DC 20036

202-204-8014 (v) 202-204-8015 (f) www.gwscpa.org info@gwscpa.org

July 31, 2004

Ms. Comes:

The Greater Washington Society of Certified Public Accountants’ (GWSCPA) Federal Issues and Standards Committee (FISC) appreciates the opportunity to provide comments on the Federal Accounting Standards Advisory Board’s (FASAB) Exposure Draft *“Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts”* (ED). FISC is a GWSCPA committee composed of accounting and auditing professionals who are actively involved in Federal government accounting and auditing, and who have an interest in addressing issues that impact the Federal government accounting and auditing industry.

The ED proposes setting an implementation date for requiring costs covered by other reporting entities to be included in the full cost of outputs that are reported in general purpose financial reports. The amendment would ensure that all material costs are included in full cost measures.

FISC members agree that an established approach to measuring and disclosing significant inter-entity costs assumptions is essential to fair presentation and meeting operating performance objectives. In general, we support the ED’s issuance. Our comments and responses to the specific questions asked by FASAB are included as an attachment to this letter.

ATTACHMENT 1 – TEXT OF COMMENT LETTERS

This comment letter was reviewed by members of FISC. We had no FISC members who objected to the issuance of this letter. We would be pleased to discuss this letter with you at your convenience. You can contact me at 202-533-6072 or e-mail me at dkovlak@kpmg.com.

Daniel L. Kovlak

Chair

ATTACHMENT A

Questions for Respondents

1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105–115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.

FISC members agreed with the proposed implementation period.

2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.

Members generally do not agree with Mr. Reid's alternative and are of the opinion that each federal agency should take the responsibility for the accuracy and completeness of their financial information rather than relying on other parties (such as FASAB) to deal with agency-specific issues.

3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page 19)? Please provide examples and/or explain your answer.

If this question cannot be answered by reviewing the results of the 2000 project to study inter-entity costs (discussed in the background on page 9), it is suggested that a modified study be performed to obtain an estimate of the cost components that meet the recognition criteria.

4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.

Some agencies will likely take the initiative. Others might not be fully aware of the potential need to do so. As a side comment, it is recommended that consideration be given to establishing a “critical timeline” which incorporates verification that all agencies have reviewed their respective inter-entity services and related agreements. The objective of the suggested verification is to ensure all agencies are aware and not caught in a state of un-readiness.

It is also recommended that clarification be given regarding how and if this ED potentially triggers any issues with respect to reported use of appropriations that are awarded to the servicing and serviced agencies.

5) Because this proposal includes a time period during which additional guidance may be sought (consistent with the task force recommendation found on page 16), the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the proposal provisions.

b. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par.112 at page 19.) The factors are:

i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions.

As noted above, we would be interested in knowing whether and how inter-entity costs are used in decision making. They are not a factor in day-to-day agency decision making and will not be unless they are actually appropriated to and controllable by the receiving agency.

ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.

iii. Identifiability -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision.

Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

The three factors appear to be appropriate. However, we would like clarification on whether in "5a" the intent of SFFAS 4 is that all three factors must be reviewed to determine "materiality," or just one.

- c. ***SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.***

No additional guidance is needed at this time. However, to assist agencies in understanding this issue, it might be useful to develop a list of activities that would fall under the category of broad and general support.

#18 –Department of Labor, Office of Inspector General, Elliot P. Lewis, Assistant Inspector General for Audit, Federal auditor

NOTE: STAFF DISCUSSED RESPONSE WITH MICHAEL MCFADDEN, DOL-OIG, AFTER THE LETTER WAS RECEIVED. MR. MCFADDEN STATED THAT DOL-OIG WISHED TO CHANGE THEIR RESPONSE TO QUESTION 1 AND 2. STAFF INCLUDED LETTER, BUT CONSIDERED THE ANSWER TO QUESTION 1 TO BE NO AND THE ANSWER TO QUESTION 2 TO BE YES BASED ON THE CONVERSATION AND REQUEST.

Ms. Wendy M. Comes, Executive Director
Federal Accounting Standards Advisory Board (FASAB)
441 G Street NW, Mailstop 6K17
Washington, DC 20548

Dear Ms. Comes:

We have reviewed the exposure draft entitled Inter-Entity Cost Implementation: Amending SFFAS 4, Managerial Cost Accounting Standards and Concepts, and in general we concur with the proposed requirements and support such a draft.

The Federal Accounting Standards Advisory Board (FASAB) is proposing to require the full implementation of the inter-entity cost provision in the Statement of Federal Financial Accounting Standards (SFFAS) 4, Managerial Cost Accounting Standards and concepts for FY 2008. The proposed draft would require each entity's full cost to include the full cost of goods and services that it receives from other entities and to report such costs in the general purpose financial reports. The entity providing the service would have the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice. We believe that incorporating the inter-entity cost in each entity's full cost would enhance the accuracy and reliability of the Federal financial reporting. Accurate and reliable cost data are also crucial in assisting Federal managers and other interest groups in making informative management decisions.

The Exposure Draft also included five specific questions for respondents, and the following are our answers for the subject questions:

1. This exposure draft proposes that the inter-entity cost provisions of SFFAS 4(par.105-115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternatives that you would prefer.

Answer: Yes, we concur with the proposal.

2. Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain the reasons for agreeing or disagreeing.

Answer: No, we do not agree with Mr. Reid's views that call for identifying specific costs to be recognized on a step-by-step practical approach to the implementation of the inter-departmental costing standard. We believe that having OMB identify specific costs to be included in the full cost of any entity, as the exposure draft requires, would ensure uniformity and consistency of Federal financial reports.

3. Do you believe there are now nonreimbursed or under-reimbursed inter-entity costs meeting the recognition criteria establishing in SFFAS 4, par. 111-113 (see page 19)? Please provide examples and/or explain your answer.

Answer: We are not aware of any nonreimbursed or under-reimbursed inter-entity costs meeting the recognition criteria establishing in SFFAS 4, par. 111-113.

4. Because this proposal includes a time period during which additional guidance may be sought, the Board wishes to gather additional information that would be useful in planning for that guidance. Thus, the following questions are intended to assist the Board in planning and do not relate directly to the provisions of this proposal.

a. SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par. 112 at page 19.) The factors are: Significance to the entity, Directness of relationship to the entity's operations, and Identifiability.

Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.

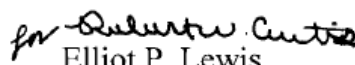
Answer: We believe that the provided guidance is sufficient to assist agencies to determine materiality of inter-entity cost to the receiving entity.

b. SFFAS 4 provides that inter-entity cost recognition is not required if the under-reimbursed or nonreimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the Federal Government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.

Answer: No, additional guidance is not necessary concerning broad and general support.

We appreciate the opportunity to comment on the subject draft. If you have any questions concerning our comments, please call Michael McFadden at (202) 693-5164.

Sincerely,


Elliot P. Lewis
Assistant Inspector General
for Audit

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

Tally Of Responses By Question

QUESTION	YES/AGREE	NO/DISAGREE	NO COMMENT
1) This exposure draft proposes that the inter-entity cost provisions of SFFAS 4 (par. 105 – 115) be fully implemented for reporting periods beginning after September 30, 2007. Do you agree with this proposal? If not, please explain your reasons and any alternative that you would prefer.	9	9	
2) Appendix B presents the alternative views of one member, Mr. Robert Reid. Do you agree with his proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis as envisioned in SFFAS 4? Please explain your reasons for agreeing or disagreeing.	12	6	
3) Do you believe there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria established in SFFAS 4, par. 111-113 (see page 19)? Please provide examples and/or explain your answer.	10	1	7
4) Do you believe that federal entities will seek additional reimbursable agreements or modify existing reimbursable agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized? Please explain your answer.	11	1	6
5a) SFFAS 4 provides three factors to consider in determining whether an inter-entity cost is material to the receiving entity. (See SFFAS 4, par. 112 at page 19.) The factors are: i. Significance to the entity -- The cost of the good or service is large enough that management should be aware of the cost when making decisions. ii. Directness of relationship to the entity's operations -- The good or service provided is an integral part of and necessary to the output produced by the entity.	9	6	3

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

<p>iii. Identifiability -- The cost of the good or service provided to the entity can be matched to the entity with reasonable precision.</p> <p>Is additional guidance needed to apply these factors? If so, please indicate what specific questions you have regarding the application of these factors.</p>			
<p>5b.) SFFAS 4 provides that inter-entity cost recognition is not required if the underreimbursed or non-reimbursed costs are related to broad and general support. Broad and general support is provided by a providing entity to all or most entities of the federal government and is not an integral part of the receiving entities' output. Is additional guidance needed to apply this exception? If so, please identify any activities that may be broad and general support but for which the above description does not resolve the classification.</p>	<p>9</p>	<p>6</p>	<p>3</p>

Quick Table Of Responses By Question

RESPONDENT	1) Do you agree with this proposal?	2) Do you agree with the alternative views?	3) Do you believe there are potential inter-entity costs?	4) Do you believe entities will seek additional or modify existing reimbursable agreements?	5a.) Is additional guidance needed to apply these factors? 5b.) Is additional guidance needed to apply the broad/general exception?
1.) Department of Commerce	Yes** (**with additional guidance)	No	Yes	Yes	Yes
2.) Management Concepts Inc	Yes	No	Yes	Yes	No
3.) Carmichael Brasher Tuvell & Co.,	No	Yes	Yes	Yes	No
4.) Library of Congress, Jay Miller	No	Yes	Yes	Yes	Yes
5.) KPMG LLP	Yes	No	Yes	Yes	Yes
6.) Western Area Power Administration	No	Yes	Yes	Yes (for small scale activities)	Yes
7.) Department of Housing and Urban Development	Yes	Yes	Yes (but may not be material)	Yes	Yes
8.) AGA Financial Management Standards Board	Yes	No	Yes (but not aware of specific examples)	Yes	No

RESPONDENT	1) Do you agree with this proposal?	2) Do you agree with the alternative views?	3) Do you believe there are potential inter-entity costs?	4) Do you believe entities will seek additional or modify existing reimbursable agreements?	5a.) Is additional guidance needed to apply these factors? 5b.) Is additional guidance needed to apply the broad/general exception?
9.) U.S. Nuclear Regulatory Commission	Yes** (**with additional guidance)	Yes	Not specifically answered	Yes	*Yes (*Based on comments)
10.) Environmental Protection Agency	No	Yes	Not specifically answered	Not specifically answered	Yes
11.) Department of the Treasury	No	Yes	Not specifically answered	Not specifically answered	*Yes (*Based on comments)
12.) Financial Management Service	No	Yes	Not specifically answered	Not specifically answered	Not specifically answered
13.) U.S. Department of Health & Human Services	Yes	No	Yes	Yes	5a.) No 5b.) Yes
14.) US Department of Agriculture	Yes** (**with additional guidance)	Yes	Not specifically answered	Not specifically answered	Not specifically answered
15.) U.S. Department of Health and Human Services, Office of Inspector General	No	Yes	Not specifically answered	Not specifically answered	Not specifically answered
16.) U.S. Department of Interior	No	Yes	Yes	No	No

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

RESPONDENT	1) Do you agree with this proposal?	2) Do you agree with the alternative views?	3) Do you believe there are potential inter-entity costs?	4) Do you believe entities will seek additional or modify existing reimbursable agreements?	5a.) Is additional guidance needed to apply these factors? 5b.) Is additional guidance needed to apply the broad/general exception?
17.) Greater Washington Society of Certified Public Accountants' (GWSCPA) Federal Issues and Standards Committee	Yes	No	Not specifically answered	Yes	5a.) Yes 5b.) No
18.) ² Department of Labor, Office of Inspector General	No	Yes	No	Not specifically answered	No

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ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

Answers and Comments by Question and by Respondent

RESPONDENT	1) Do you agree with the proposal?	2) Do you agree with the alternative views?	3) Do you believe there are potential inter-entity costs?	4) Do you believe entities will seek additional or modify existing reimbursable agreements?	5a.) Is additional guidance needed to apply these factors? 5b.) Is additional guidance needed to apply the broad/general exception?
1.) Department of Commerce, James Taylor, Deputy Chief Financial Officer	Yes, DOC believes that successful implementation is dependent on the issuance of additional guidance from OMB or FASAB.	No, DOC believes that entities should have sufficient time to implement full costing by FY 2008. DOC notes that the task force believed that there were not widespread material inter-entity costs.	Yes, DOC believes that some agencies may have material/ significant inter-entity costs not being recognized due to the restriction. Examples include those identified in the Task Force report such as DOJ legal services.	Yes. If it becomes necessary for providing agencies to track all costs for services provided, they may be more inclined to recoup these costs through reimbursable agreements. DOC also believes that full costing may be achieved in part through increased reimbursable agreements.	5a.) Yes. Additional guidance is needed for the identifiability factor. Providing entities may have difficulty in determining, with reasonable precision, the costs incurred on behalf of receiving entities, and in calculating and breaking down costs by receiving entity. Another problem is that providing entities may not be knowledgeable of what is material to the receiving entity. 5b.) Yes, an extensive evaluation of DOJ services should be performed to determine which should be considered broad and general. Additionally, an expansion of this evaluation to other applicable agencies would be appropriate.
2.) Management Concepts Inc., Charles J. Maloney, Jr., Executive Director, Financial Management Programs	Yes	MCI disagrees with the alternative views. The issue of recognizing interentity costs is not new. Agencies have had sufficient experience in this subject to understand the accounting and reporting implications. Consequently, step-by-step	Due to the enormity of Federal operations, it is likely that non-reimbursed or under-reimbursed costs exist. One likely example concerns security costs. Security is a growing cost in government	Yes. It should be expected that federal entities will seek reimbursements for services provided to other federal entities. This effort could enhance the reporting of full costs by increasing the accuracy of allocating inter-entity costs that are not currently	5a.) No, MCI believes that all material inter-entity costs should be recognized without further qualifiers that may reduce the possibility of identifying relevant costs. 5b.) No

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

		implementation instructions are not necessary. The alternative views promulgate the idea that the consistent application of an accounting standard requires an identical application in all entities, this approach would be very limiting.	operations, and in cases where entities are co-located, one entity may bear the major portion of the security costs. MCI believes this is an issue that requires additional review.	recognized.	
3.) Carmichael Brasher Tuveill & Co., Chris H. Carrollton, CPA	Does not agree with proposal, the 2007 date will not address whether agencies are capable of recognizing true costs.	Agree with Mr. Reid. To leave it to each agency (and auditor of the agency) to decide what will be included as "full cost" will lead to incongruity among entities. Should prescribe specific costs to be recognized and allow the agencies sufficient time to determine the best method for valuing those costs.	Certainly there are non-reimbursed and under-reimbursed inter-entity costs among agencies in the government. Some examples might be security for Federal buildings, training of agency security personnel, environmental assessments and the sharing of data between agencies.	The activity of determining whether or not costs are being fully-recovered would, in of itself, create an incentive for agencies to adjust their pricing.	5a.) These factors appear to be fairly clear and easily applied for larger inter-entity relationships. However, in some cases agencies might need to consider Congressional intent and their enacting legislation in determining the "materiality" of the inter-entity costs. 5b.) Not aware of any type of activities.
4.) Library of Congress, Jay Miller	No. LOC already recognizes inter-entity costs beyond those required by OMB. Implementation date of FY 2008 does not provide adequate time to fully implement and a step-by-step approach would be	Yes, LOC agrees with the alternative views of Mr. Reid. We agree with his proposal to implement the inter-entity cost provisions by identifying specific	Yes, the Library believes that there are now non-reimbursed or under-reimburse inter-entity costs meeting the recognition criteria	Yes, depending upon the circumstances, we believe that Federal entities may seek additional reimbursable agreements or modify existing agreements	5a.) Yes, additional guidance should be given on applying the criteria. For example, should all criteria, two out of three criteria (and in what combinations), or only one criterion apply? In the first criterion, the Library believes that "significance to the entity" should go beyond the consideration of

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

	<p>better. Issues include: 1) No clear delineation between (i) an Agency that is providing goods and services for another Agency versus (ii) an Agency that partners with other Federal, State, and local Agencies. 2) No clear delineation as to the purpose and scope for which the providing Agencies perform the services. A particular service may be (i) an integral part of the providing Agency's mission and represent the majority of its activity, (ii) administrative in nature and benefits from specialization and economies of scale or (iii) historically and traditionally performed by the providing Agency, may be related to its mission, but is only a minor activity. 3.) Standard requires recognition of inter-entity costs when they are material to the receiver, but ignores inter-entity costs that are material to the provider. If a small Agency provides goods/services to a large Agency, the inter-entity costs may be immaterial to the receiver, but very material to the provider.</p>	<p>costs to be recognized on a step-by-step basis as envisioned in SFFAS No. 4.</p>	<p>established in SFFAS No. 4, paragraphs 111 through 113. In our response to 1) above, we provided examples for the Library as a receiver of services (GPO and AOC).</p>	<p>because non-reimbursed or under-reimbursed inter-entity costs may be recognized. However, clearer guidance must be established on how inter-entity costs will be treated on reimbursable agreements; for example, under what circumstances should a providing Agency charge for services it receives from another entity (non-reimbursed, under-reimbursed, and reimbursed).</p>	<p>whether a cost is large and consider the importance of the goods or services to the receiving entity. A cost may not necessarily be material, but may still be integral and necessary in the fulfillment of the receiving Agency's mission. In this example, the second criterion is met, but not the first. Who is doing the matching in the third criterion, the provider or the receiver? Depending upon the circumstances, either the provider or the receiver may provide the most accurate data. Does the matching imply direct tracing, or will the standard accept cost assignment or cost allocation as long as the same methodology is consistently used?</p> <p>5b.) Additional guidance should be given for defining broad and general services. Guidance should be provided to distinguish services provided by an Agency that are (i) broad and general because they are provided to all or most entities of the Federal government as opposed to (ii) Agency-specific and not broad and general. The standard states "The cost of such broad services should not be recognized as an expense (or asset) by the receiving entities when there is no reimbursement of costs (Paragraph 112)." The standard does not mention under-reimbursement. Please include "under-reimbursement" in the language of the standard if the Board intends to exclude both under-reimbursed and non-reimbursed costs.</p>
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ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

5.) KPMG LLP, Daniel L. Kovlak, Partner	KPMG agrees with the proposal, but noted FASAB should explain what the plans are to address the AAPC recommendations prior to the implementation date.	KPMG agrees with the alternative view in theory, but not in practice. From a practical standpoint, significant progress has not been made in this area. Therefore, the proposal set forth in the ED should be followed.	KPMG believes that there are non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria, however, they do not have specific examples.	Yes, KPMG believes that if a Federal entity knows the true cost of providing a service, it will, in most cases, seek to recover those costs.	5a.) Yes, KPMG believes that additional guidance is needed to apply the 3 factors to consider in determining whether an inter-entity cost is material to the receiving entity. For example, the FASAB should explain how the providing entity will determine the materiality from the receiving entity's perspective. 5b.) FASAB should provide a comprehensive list of all costs considered to be "broad and general support," to make sure that application is consistent among Federal agencies.
6.) Western Area Power Administration, Gary Michelson	WAPA believes the 1998 OMB memo provides sufficient guidance for significant inter-entity costs and they concur with the AAPC conclusion that all other inter-entity costs subject to full costing should be reimbursable and any additional costing should be specifically identified by FASAB or OMB.	Since only material amounts require full costing, only a relatively few additional large scale activities will be included in the specific step-by-step provisions. The specific guidance for the large scale activities will facilitate consistency in the interpretation of guidance and application of audit procedures.	Yes, relative to WAPA's business, primarily Treasury cash disbursement and collection activities (check writing and lockbox) and DOJ legal assistance associated with resolution of wholesale energy contract disputes.	Partially yes (for small scale activities) because funding constraints create a need to seek alternative financing sources. However, large scale, general in nature, activities that should be fully costed to agencies (e.g., Treasury check writing) won't because those Agencies will continue to receive appropriations and have no incentive to establish reimbursable agreements without OMB guidance.	5a.) Yes, additional guidance is necessary. A cost may be significant to the receiving entity but not to the providing entity. If the providing entity does not provide full cost details, the receiving entity cannot comply. Also, identifiability is a problem for costs that are broad and general in nature but should be fully costed because correct allocation of indirect costs may be difficult. 5b.) Yes, additional guidance is necessary. Environmental assistance (e.g., EPA, NPS, DOI), legal assistance (e.g., DOJ), financial assistance (e.g., Treasury, OMB) are three areas that are general in nature but can be specifically identifiable to the receiving Agency.

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

7.) Department of Housing and Urban Development, Monica Clarke	HUD agrees with the proposal, but would appreciate further guidance.	As a first step, specific cost should be recognized on a step-by-step basis to encourage consistency government-wide. However, if the intent is to capture full cost, agencies with additional costs that are <u>not</u> government-wide in nature should be required to report these costs.	HUD may have some non-reimbursed costs that meet the <u>definition</u> of inter entity cost, but do not necessarily meet the recognition criteria of materiality.	As the Office of Management and Budget, as part of the PART process, evaluates agency programs for demonstrated program cost and outcomes, agencies will accordingly seek reimbursable agreements or modify existing agreements to recognize full cost.	5a.) Additional guidance would be helpful since the Inspector General community will audit inter entity cost based on the requirements in the standards. Guidance should be expanded to state whether all three factors must be met prior to recognition. 5b.) Guidance that includes specific examples of costs that are related to broad and general support would be helpful in interpreting the standard.
8.) AGA Financial Management Standards Board, Russell W. Hinton	The majority of FMSB members agreed with the proposal. Several suggested that an even earlier date should be considered, as this information is relatively easy to determine for full costing. One member had some issues with the proposal as noted in question 2.	The majority of FMSB members opposed the alternative views. Each federal agency should take responsibility for the accuracy and completeness of its financial information rather than relying on other parties to deal with agency-specific issues or dictate which costs should be included. Mr. Reid makes a valid point about the potential differences of opinion on what is material, this becomes a matter of "professional judgment."	FMSB members were not aware of any specific examples, they thought that certain costs were likely to be missed, especially with the number of IT systems that do not "talk" to each other.	The FMSB thought it was possible, or even probable, that agencies would alter their agreements so as to capture the costs and recover them appropriately, if this new requirement identifies under or over charges. There might be some anti-deficiency act issues and there may have to be a change in the way in which funds are appropriated.	5a.) FMSB thought that this was appropriate and allowed for professional judgment. The three factors are sufficient to allow accountant and auditor to reach a consensus on which costs to consider material. 5b.) Additional guidance is not needed at this time; it should be left to the discretion of the accountant and auditor of the agency. FASAB should monitor agency implementation and be prepared to answer issues as they arise. It might be useful to develop a list of activities that would fall under this category to assist agencies in understanding this issue.

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

9.) U.S. Nuclear Regulatory Commission, Leon Fleischer	The requirement to fully implement the inter-entity cost provisions is reasonable if the standard identifies specific costs or types of costs to be recognized and additional procedures and policies are put in place. NRC agrees with AAPC that there should be detailed, practical guidance on identifying, quantifying, and evaluating inter-entity costs, particularly evaluating the inter-entity costs significance and materiality.	NRC agrees with Mr. Reid that specific costs be identified that constitute inter-entity costs.	It would be extremely difficult, if not impossible for receiving entities to recognize applicable under-reimbursed inter-entity costs without further guidance and policies in place.	Yes, NRC believes this will lead to agencies seeking additional reimbursable agreements such as increasing fees. If more costs are now recognized (inter-entity costs), and agencies are required to recover costs by charging fees, these agencies will probably either adjust/increase their fees or seek additional reimbursable agreements to recover their additional costs.	5a.) Is it possible to receive clarity on the directness of the relationship to the entity's operations? If the costs associated with the goods or services being provided are allocated to more than one program or output, is it still considered integral? The exposure draft includes significance to the entity as a determinate of materiality for the receiving entity. Also, it is stated that "The cost of the goods or services is large enough that management should be aware of the costs when making a decision." Is materiality also determined by the importance of the goods or services provided to the receiving entity in completing the mission associated with a particular program or output? 5b.) For this exposure draft, does the absence of an inter-agency agreement or some other formal agreement eliminate a determination of recognition. Please clarify.
10.) Environmental Protection Agency, Lorna M. McAllister	EPA does not agree with the proposal. EPA acknowledges the importance of recognizing the full costs, they do not believe that the Board's approach will best serve the federal community. Costs will not be recognized consistently, that guidance on applying the recognition criteria is insufficient, that significant implementation issues beyond the scope of	Yes, EPA endorses the alternate proposal by Mr. Reid to gradually implement the inter-entity cost standard. The Reid proposal reflects many of our concerns regarding how inter-entity costs will be identified and how the standard's cost recognition criteria will be applied. EPA does	All interagency agreements (IAGs) for which EPA is the providing agency are partially reimbursed because we currently do not bill for indirect costs. EPA believes that the majority of material	EPA cannot predict whether other federal entities will increase fees for non-reimbursed or under-reimbursed agreements.	5a.) EPA believes that additional guidance to apply the materiality factors is necessary. SFFAS 4 states that determining whether a cost is material requires "considerable judgment" based on the facts and circumstances of each transaction. How will the Board ensure that an agreement material to one entity but not material to another entity receives the same treatment by both entities? In this case, if the former records the transaction but the latter does not, interagency eliminations will not balance. At what level will costs be

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

	<p>whatever guidance the Board may provide will occur, and that full implementation will open the door to substantial audit issues. Sole reliance on each entity's judgment in identifying inter-entity costs to be recognized will result in differing interpretations of cost recognition.</p> <p>The Board's lack of clarification on the issue of implementation guidance has the potential to create a situation in which agencies will be uncertain as to which costs they are required to recognize and how to apply the standard's criteria for cost recognition to those costs.</p>	<p>not believe that the inter-entity cost standard can be implemented in a practical and consistent manner by abandoning the "case-by-case" approach in favor of "opening the door to all costs."</p>	<p>interagency agreements for significant goods and services are fully reimbursed.</p>		<p>considered material? Will materiality occur at the appropriation/fund level or at the program level or at the transaction level? Another issue is whether materiality should be set at a particular threshold. This may more objectively contribute to making the determination as to whether a cost is material, but again, at which level should the threshold be applied? The meaning of "significance" to the entity should be clarified. Should significance be judged based on both a qualitative and a quantitative basis? 5b.) The current guidance on applying the broad and general support exception is sufficiently vague as to require additional guidance for implementation. FASAB should elaborate on the types of situations that would require an agency to recognize these costs. In particular, it should provide specific examples of when such services require recognition, guidance on how to determine whether such services are "integral" even though they may not involve large dollar amounts, and under what circumstances these costs should be recognized for financial statement purposes.</p>
11.) Department of the Treasury, Jim Lingeback	<p>Treasury does not agree with the Board's description of par. 110 as an impediment to implementation. Had the responsibilities assigned in par. 110 been more fully addressed by the named</p>	<p>Treasury fully agrees with the views expressed by Mr. Reid. Treasury does not believe that OMB should be removed from this role because lack of agency</p>	<p>The Department's Financial Management Service does not provide check writing cost information to other Federal</p>	<p>Treasury does not have a comment.</p>	<p>5a.) Should aggregation be considered when determining significance? How can agency management control the costs of their goods or services if they are not in control of the costs being incurred by the provider and imputed cost information is not received until after the reporting period is over? If a</p>

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

	bodies, this amendment would be unnecessary.	guidance from OMB will make it extremely difficult for auditors to determine the completeness of Federal financial statements. Receiving Federal agencies will be left at the mercy of providers for cost information.	agencies. If the Financial Management Service cannot match these services to receiving entities with reasonable precision, are receiving entities exempted from imputing the costs.		cost cannot be assigned to a receiving entity by a provider, with reasonable precision, it appears that the receiving entity is exempted from imputing the cost. Is this correct? How is reasonable precision defined by FASAB? How will receiving entity auditors determine that the providing entity cannot identify the cost, with reasonable precision, for the receiving entity? b) The problem is both identifying the costs that meet the exception and identifying those that are "exceptions to the exception."
12.) Financial Management Service, David Hesch	No, FMS recommends that FASAB implement full cost accounting, step-by-step, beginning with the largest and most important inter-entity costs. Identifying the specific costs will ensure consistency.	Yes, FMS agrees with the opinions of Mr. Reid.	No specific comment or answer.	No specific comment or answer	No specific comment or answer
13.) U.S. Department of Health & Human Services, Shirl Ruffin, Director, Office of Financial Policy	Yes, HHS agrees.	No, HHS disagrees. HHS does not believe the Board can identify every instance where inter-entity costs are material across the Federal Government, and instead believe it is better to leave it to management's judgement.	Yes. HHS Operating Divisions (OPDIVs) reports an imputed cost and imputed financing source for the salaries and expenses related to Commissioned Corp Officers.	Some agencies will, and some will not. Most likely agencies who already have reimbursable agreements will include any under reimbursed inter-entity costs in their billing algorithms for futures billing periods.	5a.) No additional guidance is needed; these factors are self-explanatory. 5b.) If you define broad and general support as being provided to all or most entities of the Federal government, then you would need to have OMB or FASAB identify what support services are included in this category, to ensure consistency across all federal reporting entities.

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

14.) US Department of Agriculture, John G. Brewer, Associate Chief Financial Officer, Financial Operations	Yes, USDA agrees with an implementation date after September 30, 2007. However, federal agencies would benefit from additional detailed, uniform guidance for specific inter-entity costs.	Yes, identifying inter-entity costs is an extraordinarily complex task. Without guidance, there will be double counting and other inconsistent accounting treatment practiced government-wide.	No specific comment or answer.	No specific comment or answer.	No specific comment or answer.
15.) U. S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services, Vera Garratt, NEAR Director, NEAR and Financial-Related Audits	No, HHS does not agree because the AAPC task force did not find material non-reimbursed or under reimbursed inter-entity cost and the judgment exercised by agency officials that has determined amounts are not material may need to be reviewed.	Yes, HHS believes if the Board does not agree with the AAPC task force findings, then it becomes a matter of assessing what costs are missing, the judgment used by officials to determine that those costs were not reportable, or has the SFFAS No. 4 been misapplied, then FASAB and the agencies can develop a plan to implement the recording of inter-entity costs at the appropriate level.	No specific comment or answer.	No specific comment or answer.	No specific comment or answer.
16.) US Department of Interior, P. Lynn Scarlett, Assistant Secretary-Policy, Budget and	DOI does not agree with the proposal because the proposal does not provide enough structure and guidance, which result in unnecessary searches for costs that do not add value.	DOI concurs that a measured, step-by-step, practical approach is critical, which should include a generally accepted approach for	Yes, DOI identified one related to the Bureau of Reclamation's Water and Irrigation Project prior to SFFAS 4.	Seeking additional reimbursement for newly recognized expenses is logical, but predicting the likelihood of fee increases unrealistic,	DOI believes the guidance in SFFAS 4 is clear and that guidance in the paragraphs is sufficient as long as reasonable and well-defined procedures for the identification of imputed costs is adopted.

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

Management	Without clear and specific guidance, it will result in expensive and time consuming exercises and disputes with auditors.	identification of significant costs, consideration of whether the costs would impact billing to the public, and guidance for the provider and receiving entity on proper accounting.	DOI discussed it with OMB and it was determined the Reclamation should continue to impute the costs.	and if there is no intent to increase fees, these efforts are unnecessary. Decisions regarding reimbursable agreements should be made by agency management, OMB, and Congress, based on what is most appropriate & efficient for the government. Providing services to other government agencies is a small part of the mission of agencies.	
17.) Greater Washington Society of Certified Public Accountants' (GWSCPA) Federal Issues and Standards Committee, Daniel L. Koviak, Chair	Yes, FISC members agreed with the proposed implementation period.	Members generally do not agree with Mr. Reid's alternative and are of the opinion that each federal agency should take the responsibility for the accuracy and completeness of their financial information rather than relying on other parties (such as FASAB) to deal with agency-specific issues.	If this question cannot be answered by reviewing the results of the 2000 project to study inter-entity costs it is suggested that a modified study be performed to obtain an estimate of the cost components that meet the recognition criteria.	Some agencies will likely take the initiative. Others might not be fully aware of the potential need to do so.	5a.) The three factors appear to be appropriate. However, there is a need for clarification on whether the intent of SFFAS 4 is that all three factors must be reviewed to determine "materiality," or just one. Also for the significance factor, members would be interested in knowing whether and how inter-entity costs information is used in decision making as it appears they would not be a factor unless they are actually appropriated to and controllable by the receiving agency. 5b.) No additional guidance is needed at this time. However, to assist agencies in understanding this issue, it might be useful to develop a list of activities that would fall under the category of broad

ATTACHMENT 2 – STAFF SUMMARY OF RESPONSES

					and general support.
18.) ³ Department of Labor, Office of Inspector General, Elliot P. Lewis, Assistant Inspector General for Audit, Federal auditor	No, DOL-OIG does not concur with the proposal.	Yes, DOL-OIG believes that having OMB identify costs will ensure consistency in reporting.	Not aware of any costs.	No answer.	No additional guidance is necessary.

Listing Of Additional Comments From Respondents

Respondent

Comment

#1 DOC

Implementation guidance is critically needed that includes: a.) identifying the responsibilities and deliverables of both the providing and receiving entity b.) establishing timelines for carrying out those responsibilities; and c.) establishing a communication process between providing and receiving entities.

#1 DOC

Identify an agency or organization that will be the arbiter between the receiving and providing entities when disagreements arise.

#5 KPMG

On page 16 of the ED, the Task Force recommended that before implementation of any revisions or removal of the OMB restriction, (1) there should be detailed, practical guidance available to agencies on identifying, quantifying and evaluating inter-entity costs... (2) there should be established policies and procedures for the providing agency to submit necessary data to the receiving agency....(3) there should be adequate consultation among Federal agencies and the Federal audit community about the

³ NOTE: STAFF DISCUSSED RESPONSE WITH MICHAEL MCFADDEN, DOL-OIG, AFTER THE LETTER WAS RECEIVED. MR. MCFADDEN STATED THAT DOL-OIG WISHED TO CHANGE THEIR RESPONSE TO QUESTION 1 AND 2. STAFF INCLUDED LETTER, BUT CONSIDERED THE ANSWER TO QUESTION 1 TO BE NO AND THE ANSWER TO QUESTION 2 TO BE YES BASED ON THE CONVERSATION AND REQUEST.

revisions or removal of the OMB restriction prior to implementation. FASAB should explain what the plans are to address these recommendations prior to the implementation date.

#10 EPA

The Board must ensure that federal entities receive appropriate guidance on which costs to recognize and how to apply the recognition criteria beyond what is currently contained in SFFAS 4. Additional guidance is necessary not only to clarify materiality provisions, but also to assist agencies with the following: identifying which types of inter-entity costs fall under the standard; applying indirect cost rates to achieve full costing of reimbursable transactions; addressing potential augmentation issues associated with billings for indirect costs; and developing auditable estimates for imputed costs.

#10 EPA

Will each agency prepare its own implementation guidance or will the Board issue standard implementation guidance applicable to all federal agencies? Will the Board address agencies' implementation issues on an individual case-by-case basis? If so, how will the various responses be coordinated so that consistent government-wide application of the standard among all federal entities is achieved? The Board's lack of clarification on the issue of implementation guidance has the potential to create a situation in which agencies will be uncertain as to which costs they are required to recognize and how to apply the standard's criteria for cost recognition to those costs. Without consistent recognition of costs and application of the standard, there will be tremendous variation in how federal entities interpret a full implementation standard.

#10 EPA

EPA believes that the Board has not thoroughly evaluated the costs and benefits of the full implementation provision. In contrast to the gradual, step-by-step recognition approach currently used, full implementation will require agencies to: focus a significant amount of already scarce resources to identify and record additional costs; compute indirect cost rates to fully cost their reimbursable agreements; obtain legal opinions regarding augmentation issues; obtain cost information from other entities; and address the inevitable audit issues that will arise from different interpretations of the recognition provision.

#10 EPA

EPA questions the appropriateness of the Board's going forward with full implementation before addressing the significant problems already associated with reconciliation of federal trading partner accounts. Currently, there are tens of billions of dollars in unreconciled trading partner accounts government-wide. The Board should focus first on the need to solve reconciliation process issues associated with intra-governmental payables and receivables before requiring agencies to recognize additional inter-entity transactions.

#10 EPA

The development and application of indirect cost rates to fully cost reimbursable agreements and the augmentation issues stemming from recovering those costs will also create uncertainties. Will specific program rates be required to satisfy the full cost requirement of SFFAS 4? What about the use of provisional versus actual rates? If provisional rates differ from actual rates, will entities then be obliged to issue extra billings to recover the additional costs or to provide refunds for recovering too much? What happens when recovery of indirect costs is legislatively capped?

#10 EPA

If an entity or a program will never be able to recover its full indirect costs, why should it be required to recognize the unreimbursed portion? Will entities be legally permitted to retain the proceeds from indirect costs without augmenting their appropriations or will it be necessary to remit the funds to Treasury? If so, will agencies be able to charge a collection fee to cover the cost of remitting these funds?

#10 EPA

How will agencies obtain actual costs or estimated costs for under-reimbursed goods and services from providing entities given that they cannot compel federal trading partners to provide cost information to enable the reconciliation of intra-governmental payables and receivables now? How will entities provide suitable documentation to auditors for these imputed costs?

#17 GWSCPA

It is recommended that consideration be given to establishing a “critical timeline” which incorporates verification that all agencies have reviewed their respective inter-entity services and related agreements. The objective of the suggested verification is to ensure all agencies are aware and not caught in a state of un-readiness.

#17 GWSCPA

It is recommended that clarification be given regarding how and if this ED potentially triggers any issues with respect to reported use of appropriations that are awarded to the servicing and serviced agencies.

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Overall Summary

- Approximately half of respondents (9 of 18) **agree** with the Board's proposal that the inter-entity cost provisions of SFFAS 4 be fully implemented for reporting periods beginning after September 30, 1997. In other words, approximately half of respondents (9 of 18) **disagree** with the Board's proposal.
- A majority of respondents (12 of 18) **agree** with the alternative view proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis.
- A majority of respondents (10 of 18) **believe** that there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS4.
- A majority of respondents (11 of 18) **believe** that federal entities will seek additional reimbursable agreements or modify existing agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized.
- Approximately half of respondents (9 of 18) **believe** that additional guidance is needed to apply the factors in determining whether an inter-entity cost is material to the receiving entity.

- Approximately half of respondents (9 of 18) **believe** that additional guidance is needed to apply the broad and general support exception.

Issues Raised -- Staff Analysis and Recommendations

Broad Issue 1: Most respondents agree with the Alternative View compared to the Board's proposal that the inter-entity cost provisions of SFFAS 4 be fully implemented for reporting periods beginning after September 30, 1997.

This issue is supported by the fact:

- A majority of respondents (12 of 18) agree with the alternative view proposal to implement the inter-entity cost provisions by identifying specific costs to be recognized on a step-by-step basis.
- Although approximately half of respondents (9 of 18) agree with the Board's proposal, this also means that approximately half of the respondents (9 of 18) **disagree** with the proposal. All of the respondents that disagreed with the proposal, agreed with the alternative view presented by Mr. Reid.
- Three of the respondents that agree with the proposal, also agree with the alternative view.
- Of the respondents agreeing with the proposal, several respondents noted that it was contingent upon additional implementation guidance being provided.
- The main reasons provided for not supporting the Board's proposal included the following:
 - Respondents concurred with AAPC Inter-entity Task Force Report and recommendations. Specifically, respondents noted that:
 - The Task Force did not identify material/significant widespread inter-entity costs that would warrant requiring agencies to record.
 - Expanded use of Inter-agency agreements would be an effective way to minimize unrecorded inter-entity costs.
 - There should be detailed, practical guidance available to agencies on identifying, quantifying, and evaluating inter-entity costs.
 - There should be established policies and procedures for the providing agency to submit necessary data to the receiving agency.
 - Costs will not be recognized consistently across agencies as reliance on entity's judgment in identifying costs will result in differing interpretations and will also result in audit issues.

- ED does not provided adequate time to fully implement, especially considering the limited resources and time constraints.
- ED is unclear in many respects and additional detailed, practical guidance is necessary. (See Broad Issue 3 for further details.)

Broad Issue 2: There are non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS 4 and most agencies would seek additional reimbursable agreements or modify existing agreements once determined.

This issue is supported by the fact that:

- A majority of respondents (10 of 18) **believe** that there are now non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS 4. In addition, 7 of the other respondents did not provide answers, so it would be difficult to say that they disagree.
- A majority of respondents (11 of 18) **believe** that federal entities will seek additional reimbursable agreements or modify existing agreements (e.g., by increasing fees) because non-reimbursed or under-reimbursed inter-entity costs may be recognized. In addition, 6 of the other respondents did not provide answers, so it would be difficult to say that they disagree.
- Specific examples of potential non-reimbursed or under-reimbursed inter-entity costs meeting the recognition criteria in SFFAS 4 included the following:
 - Examples of potential costs provided in the AAPC Inter-entity Task Force Report
 - DOJ legal services
 - Security
 - Training
 - Environmental assessments
 - Sharing of data between agencies
 - Examples for the Library of Congress include services from GPO and AOC
 - Treasury cash disbursement and collection activities (check writing and lockbox)

Broad Issue 3: There is a need for additional detailed, practical guidance in various areas related to the full implementation of inter-entity costing.

This issue is supported by the fact that:

- Approximately half of respondents (9 of 18) **believe** that additional guidance is needed to apply the factors in determining whether an inter-entity cost is material to the receiving entity. Specific comments included:
 - Providing entities may have difficulty in determining, with reasonable precision, the costs incurred on behalf of receiving entities, and in calculating and breaking down costs by receiving entity.
 - Providing entities may not be knowledgeable of what is material to the receiving entity.
 - Additional guidance should be given on applying the criteria--should all criteria, two out of three criteria (and in what combinations), or only one criterion apply?
 - "Significance to the entity" should go beyond the consideration of whether a cost is large and consider the importance of the goods or services to the receiving entity. A cost may not necessarily be material, but may still be integral and necessary in the fulfillment of the receiving Agency's mission.
 - Who is doing the matching in the third criterion, the provider or the receiver? Depending upon the circumstances, either the provider or the receiver may provide the most accurate data. Does the matching imply direct tracing, or will the standard accept cost assignment or cost allocation as long as the same methodology is consistently used?
 - FASAB should explain how the providing entity will determine the materiality from the receiving entity's perspective.
 - Clarity on the directness of the relationship to the entity's operations?
 - If the costs associated with the goods or services being provided are allocated to more than one program or output, is it still considered integral?
 - Is materiality also determined by the importance of the goods or services provided to the receiving entity in completing the mission associated with a particular program or output?
 - SFFAS 4 states that determining whether a cost is material requires "considerable judgment" based on the facts and circumstances of each transaction. How will the Board ensure that an agreement material to one entity but not material to another entity receives the same treatment by both entities? In this case, if the former records the transaction but the latter does not, interagency eliminations will not balance.
 - At what level will costs be considered material? Will materiality occur at the appropriation/fund level or at the program level or at the transaction level? Another issue is whether materiality should be set at a particular threshold. This may more objectively contribute to making the determination as to whether a cost is material, but again, at which level should the threshold be applied?
 - The meaning of "significance" to the entity should be clarified. Should significance be judged based on both a qualitative and a quantitative basis?
 - Should aggregation be considered when determining significance?

- How can agency management control the costs of their goods or services if they are not in control of the costs being incurred by the provider and imputed cost information is not received until after the reporting period is over?
- If a cost cannot be assigned to a receiving entity by a provider, with reasonable precision, it appears that the receiving entity is exempted from imputing the cost. Is this correct? How is reasonable precision defined by FASAB? How will receiving entity auditors determine that the providing entity cannot identify the cost, with reasonable precision, for the receiving entity?
- Approximately half of respondents (9 of 18) **believe** that additional guidance is needed to apply the broad and general support exception.
 - Extensive evaluation of DOJ services should be performed to determine which should be considered broad and general. Additionally, an expansion of this evaluation to other applicable agencies would be appropriate.
 - Guidance should be provided to distinguish services provided by an Agency that are (i) broad and general because they are provided to all or most entities of the Federal government as opposed to (ii) Agency-specific and not broad and general.
 - The standard states "The cost of such broad services should not be recognized as an expense (or asset) by the receiving entities when there is no reimbursement of costs (Paragraph 112)." The standard does not mention under-reimbursement. Please include "under-reimbursement" in the language of the standard if the Board intends to exclude both under-reimbursed and non-reimbursed costs.
 - FASAB should provide a comprehensive list of all costs considered to be "broad and general support," to make sure that application is consistent among Federal agencies.
 - The problem is both identifying the costs that meet the exception and identifying those that are "exceptions to the exception."
- Several respondents that agreed with the proposed standard, explained that this was contingent upon the issuance of implementation guidance.
- Specific areas identified for additional guidance included the following:
 - Consistent with the AAPC Inter-entity Task Force recommendation, there should be detailed, practical guidance available to agencies on identifying, quantifying, and evaluating inter-entity costs.
 - Consistent with the AAPC Inter-entity Task Force recommendation, there should be established policies and procedures for the providing agency to submit necessary data to the receiving agency.
 - There is no clear delineation between (i) an Agency that is providing goods and services for another Agency versus (ii) an Agency that partners with other Federal, State, and local Agencies to implement a program.
 - There is no clear delineation as to the purpose and scope for which the providing Agencies perform the services. Providing Agencies may perform these services for various reasons; a particular service may be (i) an integral part of the providing Agency's

mission and represent the majority of its activity, (ii) administrative in nature and benefits from specialization and economies of scale (such as cross-servicing under the Economy Act), or (iii) historically and traditionally performed by the providing Agency, may be related to its mission, but is only a minor activity.

- The standard requires recognition of inter-entity costs when they are material to the receiver, but ignores inter-entity costs that are material to the provider. If a small Agency provides goods and services to a large Agency, the inter-entity costs may be immaterial to the receiver, but very material to the provider.
- Standard should identify specific costs or types of costs to be recognized.
- What happens when recovery of indirect costs is legislatively capped?
- If an entity or a program will never be able to recover its full indirect costs, why should it be required to recognize the unreimbursed portion?
- Will entities be legally permitted to retain the proceeds from indirect costs without augmenting their appropriations or will it be necessary to remit the funds to Treasury? If so, will agencies be able to charge a collection fee to cover the cost of remitting these funds?
- How will agencies obtain actual costs or estimated costs for under-reimbursed goods and services from providing entities given that they cannot compel federal trading partners to provide cost information to enable the reconciliation of intra-governmental payables and receivables now?
- How will entities provide suitable documentation to auditors for these imputed costs?
- Guidance including the responsibilities and deliverables of both the providing and receiving entity, establishing timelines for carrying out those responsibilities; and establishing a communication process between providing and receiving entities. In addition, the guidance should identify an agency or organization that will be the arbiter between the receiving and providing entities when disagreements arise.
- Additional guidance is necessary not only to clarify materiality provisions, but also to assist agencies with the following: identifying which types of inter-entity costs fall under the standard; applying indirect cost rates to achieve full costing of reimbursable transactions; addressing potential augmentation issues associated with billings for indirect costs; and developing auditable estimates for imputed costs.

STAFF ANALYSIS AND RECOMMENDATIONS:

As identified in Broad Issue #1, although half of the respondents supported the Board's proposal, most respondents supported the Alternative View presented in the ED. However, staff does note that there was an overlap as 3 respondents supported the proposal and the Alternative View.

As noted above, the main reasons cited for not supporting the proposal included lack of implementation guidance and that costs would not be recognized consistently across agencies.

Staff notes that the AAPC Inter-entity Task Force acknowledged that restricting the recognition of inter-entity costs is an impediment to full costing. In addition, the Task Force did not find material non-reimbursed or under-reimbursed inter-entity costs for which government-wide guidance was warranted. However, the Task Force did note that some costs could be material for selected agencies. This finding would be consistent with the comments to the ED, as a majority of respondents did believe that material non-reimbursed or under-reimbursed inter-entity costs that meet the recognition criteria do exist.

Therefore, staff believes that with the issuance of additional detailed, practical guidance, agencies will have the tools necessary to implement inter-entity full costing and capture the costs that potentially exist. Staff believes that it would be difficult for FASAB or another body to deal with each and every agency specific inter-entity cost issue.

Several respondents that did not agree with the proposal indicated that costs would not be recognized consistently across agencies as reliance on entity's judgment in identifying costs will result in differing interpretations. Staff believes that naturally differences will occur as agencies analyze their particular potential inter-entity cost against the recognition criteria because it is likely that certain costs may be material to one agency and not to another agency. This would appropriately occur considering materiality and the recognition criteria. These types of inconsistencies will occur but should not prevent agencies from informing financial statement users of material costs incurred.

Staff Recommendations:

1. The proposal should include what type of additional implementation guidance will be forthcoming. Staff recommends a Technical Release be issued that would address the concerns and questions raised in the comment letters related to implementation guidance. Staff believes that respondents included valid questions and concerns that should be addressed in guidance. The Board should include a target date for issuance of the guidance.

2. The AAPC Inter-entity Task Force should be commissioned to continue and work with FASAB staff on developing the guidance suggested in Recommendation 1. The Task Force could build upon their already extensive survey results and research, as well as the comment letters and staff analysis in developing the guidance. Additionally, the Task Force could utilize existing guidance related to cost accounting in developing the guidance. Specifically, the CFO Council's Cost Accounting Implementation Guide

and the Joint Financial Management Improvement Program's System Requirements for Managerial Cost Accounting, among others, are good sources of information.

Additionally, the AAPC Inter-entity Task Force may wish to solicit volunteers from the agencies that provided comments to the ED for assistance. Also, volunteers could be requested from agencies that will have successfully implemented Interpretation Number 6, Accounting for Imputed Intra-departmental Costs: An Interpretation of SFFAS No. 4 considering the effective date for this is for periods beginning after September 30, 2004.

3. The effective date should be delayed for periods beginning after September 30, 2008. The proposed effective date in the ED is for periods beginning after September 30, 2007. Staff believes that the Board should delay the implementation date so that a target date of September 30, 2006 could be provided for the issuance of guidance described in Recommendation 1. Staff believes it will take a substantial amount of time to develop the detailed guidance and if it is released via a Technical Release, go through the due process required. Staff believes that sufficient time should also be allowed after release of the guidance as the implementation may require detailed reviews of inter-entity activities and coordination with agencies on obtaining cost information.

Questions for the Board

1. Does the Board have any questions or comments about the comment letters received?
2. Does the Board have any questions or comments about the staff prepared analysis?
3. Does the Board wish to hold a public hearing on the ED?
4. Does the Board agree with staff recommendations or are there other alternatives that Board members would like to propose?